Ex
Libris
Jean F. Carroll

Digitized by the Internet Archive
in 2007 with funding from
Microsoft Corporation

http://www.archive.org/details/marketingmethods00convuoft

MARKETING

METHODS AND POLICIES

BY

PAUL D. CONVERSE

Head of the Department of Commerce,
University of Pittsburgh

NEW YORK
PRENTICE-HALL, INC.
1921

439-31

COPYRIGHT 1921, BY
PRENTICE-HALL, INC.
All Rights Reserved

HF
5415
C55

LIBRARY
JUL 25 1966
UNIVERSITY OF TORONTO

1097341

TO MY FATHER

The memory of whose long years of self-sacrificing devotion to the ideal of social justice has often been an inspiration to his son.

PREFACE

The author has long felt that there was a need for a book covering the general field of marketing, which would serve as an introduction to both the college student and the young man in business. Both often desire a broad knowledge of the marketing machinery which is operating around them. It was with this thought in mind that the author entered upon the preparation of this volume. He frankly admits that he has not a first-hand knowledge of every topic treated in this book. If the publication of such a book were delayed until a man was found who could prepare such a volume entirely from first-hand information it would probably never be written. This is true for the simple reason that no one man could make a thorough study of every phase of marketing and write a book before much of the information became obsolete. The author has, however, been able to draw on studies and investigations conducted by himself for much of the material contained in fifteen chapters of this volume. A part of this information has appeared in publications of the Federal Trade Commission and due credit is given by specific citations when such information is used.

There are many phases of marketing which, for lack of space, are not treated in this book. This

is true, for example, of advertising, personal salesmanship, and salesmanagement. The reader can, however, find many books on these subjects. All topics are of necessity treated briefly. Somewhat extensive bibliographies are given at the end of several chapters which the interested student can use in continuing his studies. Extensive bibliographies are not given for all topics covered for the reason that very little information concerning them is available in published form.

The field of business is divided into two parts—production and market distribution. Production is to a large extent a technical matter for engineers and mechanics. In the past, we have placed greater emphasis on production than on marketing. It is shown in Chapter I that it now costs more to market many articles than to produce them. From this, it is clear that marketing is now of much greater importance than most people have supposed. "Business," as the term is generally understood, refers to the commercial transactions involved in getting goods from the producers to the place of consumption and into the hands of the consumers. The "business" man must exercise a general supervision over production in order to determine what shall be produced and in what quantities. It is also necessary to purchase raw materials and finance the enterprise. Still the main function of "business" is to market goods. Accounting, banking, insurance, and transportation are only aids, very important aids it is true, to the production and marketing of goods.

Students of business have, in the past, devoted more attention to the aids than to the heart of business—marketing. This has been true largely because more information has been available on these subjects. These professions have benefited from the study given to them. More information is constantly becoming available on marketing. The increasing amount of study that is now being devoted to marketing should improve marketing methods, increase marketing efficiency, and reduce marketing costs.

P. D. C.

Pittsburgh, April, 1921.

TABLE OF CONTENTS

CHAPTER PAGE

I—MEANING AND FUNCTIONS OF MARKET DISTRIBUTION 1

The place of marketing in economics; The object of market distribution; Nature of human wants; Marketing a part of business; Little attention has been given to the efficiency of market distribution; Importance of market distribution; More attention being paid to marketing.

MARKETING FUNCTIONS—Assembling; Dividing; Grading; Methods of grading; Transportation; Storage; Modern storage methods; Financing; The assumption of risks.

II—PHYSICAL MARKETING FACILITIES . . 20

TRANSPORTATION—Movements involved in transportation; Number of movements illustrated; Importance of transportation; Our transportation system; Adequacy of our railroad system; Poor terminal facilities; Suggested remedies for terminals; Car shortages; Wastes and losses due to poor transportation facilities; High costs; Poor facilities in New York; Multiplicity of terminals increases cost of handling food; Delays; Damages to foodstuffs; Messengers in charge of cars; Car shortages are expensive; Risks increase the margin between the producer and the consumer.

STORAGE—Importance of storage facilities; Storage facilities; Public warehouses; Non-fungible and fungible goods; Adequacy of storage facilities; Adequacy of cold storage facilities in various cities; Wastes due to poor storage facilities; Inadequacy of facilities for marketing foods.

CHAPTER PAGE

REMEDY FOR SITUATION IN TERMINALS—CENTRAL WHOLESALE MARKETS—Location; Outbound rail shipments; Proper public regulation; Advantages; Limitation; Difficulties in establishing central wholesale markets; Establishment of central wholesale markets for foods.

III—TRADE CHANNELS 62

Producer direct to consumer; One middleman; Two middlemen; Three middlemen; Four middlemen; Imported goods; Variation in methods of distribution; Longer trade channels; Necessity for sales in same stage of distribution; Sale of raw and semi-finished goods.

IV—BROKERS AND SALES AGENTS . . . 81

DEFINITION OF BROKERS, SALES AGENTS, AND COMMISSION MERCHANTS—Brokers; Sales agents; Commission merchants; Merchandising brokers; Overlapping of activities.

FUNCTIONS OF BROKERS AND SALES AGENTS—Specialized, independent salesmen; Giving information; Financing principals.

BUYING BROKERS AND AGENTS

OPERATIONS OF BROKERS AND SALES AGENTS—Organization; Little capital required; Selling ability necessary to success; Must know supply and demand; Prices; Canners often suspicious of brokers; Tend to lower prices; Brokerage contracts.

NUMBER OF BROKERS—Articles sold; No accurate figures available; Number of brokers handling typical commodities.

RATES OF COMMISSION—Rates generally small; Rates on Chicago Board of Trade; Rates on smaller exchanges; Change from unit to percentage basis; Rates on canned foods; Rates on insurance and ships; Rates on cloth; Rates on foodstuffs; Rates on anthracite coal; Reasonableness of rates.

CHAPTER PAGE

NET PROFIT OF BROKERS—Hard to get average figures; Return for personal services and for capital; Returns for personal services; Returns on capital; Earnings of Princeton graduates.

CONCLUSION AS TO USEFULNESS OF BROKERS—Economy of brokers; Merchandising business not justified; Encourage speculation.

V—WHOLESALE DEALERS 116

Definitions; Grocers; Wholesaler and jobber; General vs. specialty wholesalers; Semi-jobbers; Mail order jobbers; Cooperative buying organizations; Commission merchants; Decline in commission business; Persistence of commission business; Assumption of risk; Rate of commission; The number of wholesalers.

SERVICES PERFORMED BY THE WHOLESALER—Much criticised; 1. Warehousing and distribution in small lots; 2. Furnishes manufacturers with a sales force; 3. Extension of credit to retailers; 4. Education of the retailers; 5. Makes small community stores possible; Services performed by the specialty wholesaler; Services performed by manufacturers' branch houses.

PROBLEMS OF THE WHOLESALERS—Impossible to push all lines; Leaders.

VI—WHOLESALE DEALERS (*Continued*) . . 143

MODIFICATION OF THE WHOLESALER'S SERVICE—Specialty salesmen; The Philadelphia plan; Manufacturing jobbers; Wholesalers' brands; Desirability of jobber's label; Goods should bear producer's name.

THE WHOLESALER'S GROSS PROFITS—Meaning of gross profit; Variation in gross profits; Wholesale grocers; Flour jobbers; Shoe wholesalers.

THE WHOLESALER'S COST OF DOING BUSINESS—Variation in expenses; Wholesale grocers; Flour jobbers; Produce dealers; Shoe wholesalers.

CHAPTER PAGE

THE WHOLESALER'S NET PROFITS—Wholesale grocers; Flour jobbers; Shoe wholesalers; Net profits on investment; Increase during periods of rising prices; Wholesalers of groceries, shoes and flour.
THE FUTURE OF THE WHOLESALER—Threatened from both sides; Wholesale grocers; Position in sale of shoes; Position in sale of hardware; Position in sale of drugs; Position in sale of dry goods; Position in sale of produce; Position in sale of farm implements; Wholesalers will continue to be important.

VII—THE SALE OF GOODS AT AUCTION . . 169

Private and public sales; Goods sold at auction; Decline in auction sales; Sale of wool at auction; Other products; Characteristics of auction sales; Gives full play to law of supply and demand; Auctions contrasted with sealed bids; Goods sold "as is"; Establishment of price; The fruit auctions; Graded vs. ungraded fruits; Large volume of sales; Rates of commission charged by the fruit auctions; Services performed by the fruit auctions; Ownership of fruit auctions; Suggestions for extension of auction sales; Proposal for government supervision; A cheap method of selling; Is the auction method a cheap way of buying; Commodities adapted to sale at auction; Effect of auction sales on prices; Fluctuating prices.

VIII—ORGANIZED PRODUCE EXCHANGES AND THE QUESTION OF SPECULATION . . 187

Controversy over the produce exchanges; What are the produce exchanges?; Exchanges vs. auctions; History of produce exchanges; Some important exchanges; Commodities handled; Spot vs. future sales; Public prices; Standardization; Contract grades; Corners; Time of delivery; Actual delivery; Bucket shops; Speculation: Advantages of speculation; Hedging; Advantage of hedging; Risk taking; Stabilization of prices; Certainty of prices; Equalization of prices between different markets; Benefits of marketing system to farmers; Proposed remedies; Conclusions.

CHAPTER PAGE

IX—The Development of Retail Types and Methods. 215

The Evolution of Retail Types—Importance of retailing; Fairs and markets; Itinerant merchants; Specialty stores; The traveling salesman; General stores; Department stores; Mail order houses; Chain stores; The self-serve stores.

Change in Retail Methods—Conditions prior to Civil War; Higgling over prices; Introduction of one price plan; Changed methods due to falling prices; Increase in manufactured goods; Rapid changes in style; Wastes due to changes in style; Small size of purchases; Increase in competition.

X—Retail Types 234

1. The General Store

Still important; Inability to carry assorted stock of goods.

Advantages of the General Store—Convenience of its location; Personal contact; Can base credit on exact knowledge; Low operating expenses.

Disadvantages of the General Store—Small stocks; Small buying power; Location poor for shopping trade; Inefficiency; Other rural stores; Effects of the automobile on the rural merchants; Opportunity of town merchants.

2. The Specialty Store

Recent tendency toward greater specialization; Number of specialty stores; Competitors of the specialty stores;

Advantages of Specialty Stores—Location; Personal touch; Better assorted stocks; Quicker stock turnovers; Low operating expenses.

Disadvantages of the Specialty Store—Little buying power; Stores not centrally located; Advertising; Poor management; methods of increasing efficiency.

Conclusions

CHAPTER PAGE

XI—Retail Types (*Continued*) 253

3. The Department Store

Definition; Importance; Character of trade; A woman's store; Changed living conditions; Importance of women as buyers; Characteristics of women as buyers; Service; Competitors of the department stores.

Advantages of Department Stores—Large purchasing power; Location; Advertising; Delivery; Expert Supervision; Centralized departments; Reputation.

Disadvantages of Department Stores—Can get only shopping trade; Abuse of services; Decentralization of policy; Poor salesmanship; Lack of personal touch; Inability to cater to the ultra rich; High cost of doing business; Advertising expenses high; Large delivery expenses; Lost motion; Expense of developing systems; Average expense; A successful manager's advice.

The Problems of the Department Stores—Problem of management; Do not attract the best type of employees; Success generously rewarded.

The Future of the Department Store

XII—Retail Types (*Continued*) . . . 276

4. The Mail Order House

Classes of concerns doing a mail order business; Importance of mail order business; Fraudulent practices.

Reason for The Growth of Mail Order Business—Increased standard of living; New wants; Desired goods obtainable from mail order houses; Manufacturers forced to sell by mail; Low prices of mail order houses; Manufacturers desire to control price to consumers.

Advantages of the Mail Order Houses—Ability to buy cheaply; The low cost of doing business; Quick turnovers; Development expenses; Advertising expenses; Total expenses; Low prices; Farm implements

CHAPTER PAGE

as an example; Freedom from local depressions; Drawing power of the catalog.

Disadvantages of Mail Order Houses—Lack of personal touch; Customers cannot inspect goods before buying; Delay in delivery; Disadvantages of catalog; Can carry only standard goods; Cannot render high type of service; Tends to destroy community life.

Can the Rural Merchants Meet Mail Order Competition?—Can carry carefully selected stocks; Can meet mail order competition with mail orders; Can render higher type of service; Extension of credit; Higher cost of goods; Appeal to loyalty; Efficiency in rendering service only claims for existence.

The Future of the Mail Order House

XIII—Retail Types (*Continued*) . . . 306

5. The Chain Store

Definition; Growth of chain stores; Importance of chain stores.

Classes of Chain Stores—Ownership; Retail chains; Manufacturers' chains; Jobbers' retail chains; Location; Wholesale; Department stores; General stores.

Kinds of Goods Handled—Groceries; Drugs; Five and ten cent stores; Cigars and tobacco; Candy; Shoes; Hats; Restaurants; Other lines.

Advantages of Chain Stores—Buying power; Quick turnovers; Efficient management; Store managers; Advertising; Rent; Low cost of doing business; Non-service method; Self-serve stores; Application of the self-serve method; Limitation on use of economy methods; Reduces wholesaling expenses; Total expenses of chain stores; Low prices; Cut prices; Private brands.

Disadvantages of the Chain Stores—Difficulties in management; Danger of too rapid expansion; Lack of personal touch; Lack of personal service; Increasing Efficiency of individual retailers; Danger of monopoly:

Conclusions as to Chain Stores

CHAPTER PAGE

XIV—EXPENSES AND PROFITS OF RETAIL MERCHANTS 341

Importance; Poor accounting methods of the dealers.

DEFINITIONS—Gross profits; Expense of doing business; Is interest an expense?; Net profit; Form of profit and loss, or income, statement; Source of information; Sales basis for percentages.

GROSS PROFITS—Prices realized; Price fluctuations; Variations in gross profits; Average gross profits.

OPERATING EXPENSES—Causes of variation in expenses; Operating Efficiency and volume of sales; Location of stores; Services rendered; Wide variation in expenses; Average expenses; Average expenses of general stores; Drug and jewelry stores; Average expenses of grocery stores; Average expenses of shoe stores; Average expenses of hardware stores; Expenses of novelty stores.

NET PROFITS—Variation in net profits of shoe stores; Net trading profits of rural dealers.

NET INCOME—Net income earned on total investment; Chain stores; Net income earned on own investment; Return for the personal services of the dealers.

THE FAILURE RATE AMONG RETAIL MERCHANTS—System's studies; Nystrom's Oshkosh study; Conflict of statements; Limitation on figures; conditions among other classes of merchants; The measure of success.

XV—PURCHASING, STOCKKEEPING AND STOCK TURNOVER 383

Object of purchasing; Out of stock orders; Stockkeeping; The perpetual inventory; Advantage of nearby source of supply; Perpetual inventory not always practical; Purchasing vs. ordering; Unbalanced inventories; Qualifications for successful buying; Changes in demand; Few articles in steady demand; Local demands; Seasonable demands; Can the weather be fore-

CHAPTER PAGE

told several months in advance? Cold and warm seasons; Application of principles to purchasing; Anticipating demands.

STOCK TURNOVER—Meaning of turnover; The manufacturer's turnover; Importance of rate of stock turnover to dealers; Retail hardware dealers as an Example; Stock turnover cannot make a profit out of a loss; Stock turnovers of different classes of dealers; Turnover of working capital.

XVI—COOPERATIVE MARKETING . . . 417

Meaning of cooperation; Classes of cooperative enterprises.

CONSUMERS' COOPERATION—Object; History of consumers' cooperation; Importance of consumers' cooperation; Cooperative wholesale societies; Principles of the Rochdale plan; Development in the United States; Reasons for failure; The recent movement; Organization; Sales; Opportunity for saving; Operating expenses; Actual savings on purchases; Conclusions on consumers cooperation.

XVII—COOPERATIVE MARKETING (*Continued*) 437

COOPERATIVE MARKETING OF FARM PRODUCTS—Origin; Present status; Grain elevators; Live stock shipping associations; Rice; Potatoes; California; Fruit growers; Object; Cooperative enterprise the result of necessity; Methods; Packing and manufacturing; Pooling; Standardization and advertising; Purchasing supplies; Organization; Accomplishments; Low selling expenses; Danger of monopoly; The Raisin Trust.

COOPERATION ENTERPRISES AMONG DEALERS

XVIII—TRADE ASSOCIATIONS 462

Importance of trade associations; Types of organizations; Activities; Standardization of product; Objects of Standardization; Cooperation on credit; Advertis-

CHAPTER PAGE

ing and publicity; Prices; Old methods of price fixing; Increased activity in fixing prices as a result of the war; Recent methods of price fixing; Gentlemen's agreements; Open price associations and comparisons of prices; Cost discussions; Are price agreements effective?; Are price agreements desirable?; Desirability of government supervised price agreements; Conclusions.

XIX—MARKET ANALYSIS 488

Necessity of calculating sales possibilities; New products to meet demands—farm tractors; Automobile paint; Other products; Use of questionnaires in determining demand; Men's underwear; Location of stores; Measuring the buying power of a community; Importance of market analysis to merchants; Factors affecting demand; income; Statistics of income; Occupation; Other factors.

MEASURING DEMAND—Cotton pickers; Competition; Farm tractors; Railroads; Automobile accessories; Electrical goods; Difficulties due to changing demand; Automobiles; Determining demand by experiment; Securing the estimated volume of sales; Success in sales campaigns.

XX—CHOOSING A METHOD OF DISTRIBUTION 514

Importance of choosing proper method; Factors affecting choice of method; Disposal of entire output to one buyer; Disadvantages; Selling through a sales company; Selling through sales agents; Selling through brokers.

SELLING TO WHOLESALERS VS. SELLING TO RETAILERS—Soliciting orders; Hitting the high spots; Warehousing and distribution; Branch houses; Pooled cars; Expense of warehousing services; Extension of credit; Limitations on the use of wholesalers; Disadvantages of selling to wholesalers; Types of manufacturers who should sell to retailers; Proctor and Gamble's change to the retailers; Success of the P. &. G. plan; Exclusive agencies.

CHAPTER PAGE

SELLING DIRECT TO CONSUMERS—New products; Goods unsuited to dealers; Unknown brands; Methods of selling consumers direct; Selling through specialty salesmen; Securing a trained salesforce.

XXI—PRICE DETERMINING FACTORS . . 542

Importance of prices; Changes in price levels; Factors determining changes in price levels; The quantity theory of money; Factors to be considered in fixing prices; Cost of goods; Competitors prices; Quality and reputation; Customary price; Ethical or fair prices; Charging what the traffic will bear; Monopoly price; Monopoly price may be based on average cost; What constitutes monopoly?

XXII—PRICE POLICIES 562

UNIFORM PRICES—Prices uniform as to territory; Uniform prices the result of competition; Advantages of uniform territorial prices; Difficulty of maintaining uniform prices in all territories; Prices uniform as to buyers; Price based on position in trade.

DISCOUNTS—Prices based on quantity purchased; Other forms of discounts; Cash discounts; Objections to cash discounts; Arguments in favor of cash discounts; Legality of price discrimination. List prices; Freight; S. A. P.; F. O. P.

GUARANTEE AGAINST PRICE DECLINES—Arguments for and against guaranteeing prices against decline.

RESALE PRICE MAINTENANCE—Development of demand for maintained prices; Rebuttal by opponents; Has the producer an interest in his product after it leaves his hands?; Legality of resale price maintenance; Proposal to legalize resale price maintenance; Is resale price maintenance in the interest of the consumers?; Resale price maintenance said to be opposed to interest of consumers; Economy stores; Additional arguments in favor of resale price maintenance; Additional arguments against resale price maintenance; Cut prices from the dealers viewpoint; Odd prices.

CONCLUSIONS.

CHAPTER PAGE

XXIII—The Coordination of Marketing Policies and Activities 592

Relation of selling and production; Relation of the sales and production departments; Formulation of production policies; Formulation of advertising policies; Cost of advertising; Choice of mediums; advertising vs. publicity; Business concerns too secretive in the past; Coordination of advertising and selling activities; Credit policies; Choosing the proper credit policy; Work of the credit department; Relation of sales and credit departments; Financial policy; Service policy; Broader aspects of service; Sales management; Intensive selling; The complete policy.

XXIV—Can the Cost of Market Distribution be Reduced? 613

1. Decreasing the Number of Middlemen—Are there too many middlemen?.

2. Shortening the Trade Channels—Number of dealers between producer and consumer; Large retail organizations; Manufacturers selling direct to retailers; Relative costs; Producers selling direct to consumers; Manufacturers selling by mail; Manufacturers selling the consumers through their own stores; Farmers' markets; Markets in Harrisburg and Knoxville; Markets in Washington and California; Farmers selling from house to house; Direct sales by parcels post; Disadvantages of parcel post method.

3. Cooperation Marketing Organizations—Object; Success.

4. Cheaper and More Efficient Methods—Cheaper retail methods; Elimination of over the counter sales; Should consumers buy in larger quantities?; Curb markets; Elimination of wholesale warehousing function; Central wholesale markets.

Public Regulation—Public regulation of prices.

Conclusions.

MARKETING

CHAPTER I

MEANING AND FUNCTIONS OF MARKET DISTRIBUTION

The place of marketing in economics.—Economics for the purpose of study is divided into production, distribution, and consumption. Production consists in the creation of form, place, and time utilities. Form utilities consist of the various articles or services which we desire for consumption,—coal, automobiles, bread, beefsteak, medical attention, grand opera, locomotives, or newspapers. The creation of place utilities consists in taking these articles or services to the places where they are needed by the consumers. The creation of time utilities consists in supplying these articles or services at the time they are needed or desired. The creation of place and time utilities is just as much a part of production as the creation of form utilities. If the city man is to have bread it is just as essential that the wheat be brought to the city and kept until he is hungry as it is that the wheat be grown by the farmer, ground into flour by the miller and made into bread by the baker. This, however, does not mean that there may not be more unnecessary effort in the creation of place and time utilities than in the creation of form utilities.

Marketing in a broad sense covers those business activities which have to do with the creation of place and time utilities. Marketing, to the economist, is then a part of production. The business man, however, speaks of marketing as distribution. By distribution business men mean either the transportation of the goods from the point of production to the consumers or the transportation and all the transactions involved in getting the goods from the producers to the consumers.

In economics, distribution refers to the division of society's total product among the different factors of production,—land, labor, and capital, and to the division of each factor's share among the individuals composing the factor. Disagreement over the division of wealth is the cause of a very large part of our strikes, industrial wars, and social unrest. In this book distribution will be used in the business meaning.

The Object of Market Distribution.—The object of marketing is to supply or aid in the supplying of human wants. Wants are supplied by the raw materials of nature (the economist's land) made available by human and non-human agencies. Minerals are dug from the earth, the soil tilled, crops harvested, factories operated, goods transported, stored and exchanged, and services performed by human beings assisted by natural agencies such as gravity, rain, or magnetism. Labor thus obtains from nature those things which go to satisfy human wants. The activities by which the raw materials of nature are ob-

tained, changed in form, and made available to satisfy human wants go to make up business, provided the persons engaged in these activities are actuated by the hope of a profit. The savage who picks the wild fruits or berries for his own consumption or the charitable organization which ministers to human wants without a profit are not ordinarily considered as being in "business." Business in a narrower sense consists in acquiring control of commodities or services and their sale in the same or in a changed form with the expectation of making a profit. Profit, however, is the incentive and not the object of business. The object is to supply human wants.

Nature of human wants.—Human wants are indefinite in extent. There are not only the primary wants for food, shelter, and clothing, but secondary wants depending upon man's memory, imagination, and reason. These secondary wants are limited only by the mental powers of different individuals. In any but a very simple society, business is called into use to satisfy the great majority of wants. As human wants are unlimited business is capable of indefinite expansion.

Marketing a Part of Business.—Business is divided into two parts: production (of form utilities); and market distribution or exchange. Manufacturers, miners and farmers have two problems to consider: first the production of goods; and second the sale of goods. Production deals with goods until they are in the warehouse, tipple, or granary

and marketing deals with goods from this point until they have finally been placed in the hands of the consumer.

Little attention has been given to the efficiency of market distribution.—Much more attention has been given to the efficiency of production than to the efficiency of market distribution. Production has been studied for generations, thousand of labor saving devices have been invented, and mechanical power has been applied in hundreds of ways to increase output. We have schools of engineering, mining, and agriculture. There are mechanical engineers, mining engineers, civil engineers and chemical engineers. Agriculture is now a science and dozens of colleges and hundreds of papers are instructing the farmers as to methods of increasing production or decreasing costs. Yet until comparatively recently little critical or serious attention has been given to a study of market distribution.

Many economists, as well as business men, have assumed that the distributing system which has developed under the existing conditions is the most efficient system that could be devised. It is not clear, however, why we should assume that the marketing system inherited from our fathers is any more efficient than the farming or manufacturing system inherited from them. It has been repeatedly proven that soil production can be increased by proper fertilization, plant breeding, crop rotation, and correct tillage. Also that the cost of manufacturing can be reduced by a systematic plant lay-out, use

of well designed machinery, and the intelligent handling of labor. Many manufacturers and most farmers have had their time so occupied with problems of production that they have given little attention to problems of distribution, leaving that very largely to take care of itself.

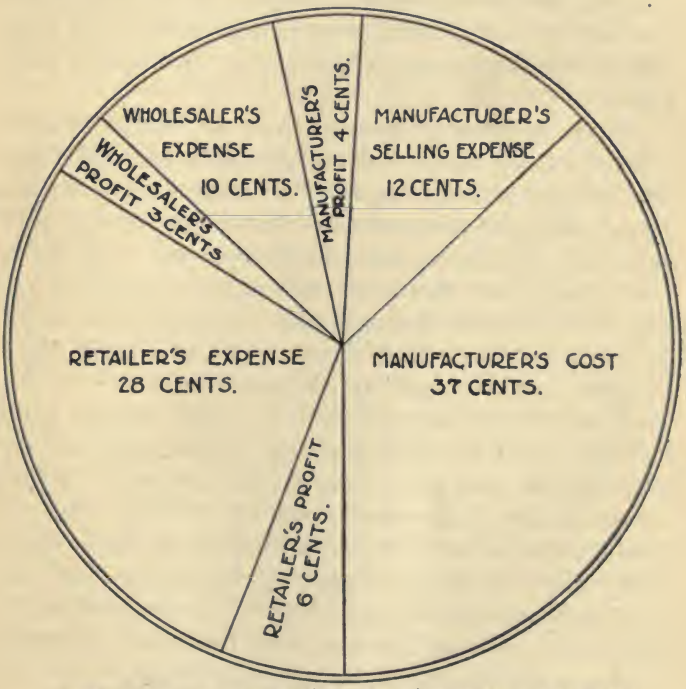
Importance of market distribution.—F. W. Taylor, in his book on Shop Management, cites the case of two competing manufacturers of chemicals, who decided to consolidate their businesses. One of these men had been an expert on production and had been producing his goods forty per cent cheaper than the other. The other man, however, was an expert on marketing and saved an equal amount in distributing his goods. After the consolidation they were able to realize both savings. This indicates that distribution is just as important as production. Many persons have apparently assumed that distribution was relatively unimportant and need be given little attention. It has been stated that the factory cost (pre-war) of a typewriter was not over $20.00 while the other $80.00, paid by the consumer went for marketing expense and profit. The author has heard the statement that the distributor got 95 per cent of the sale price of an enlarged portrait to cover his expenses and profit. Milk is a staple article and yet figures published by large distributors, who presumably have very efficient organizations, show that about half of what the consumer pays goes to the farmer and about half to cover the cost and profits of distribution. Figures gathered a few

years ago in Wisconsin showed that the cost of marketing cheese was almost equal to the price paid the farmer for the milk. A study made by the Nebraska Experiment Station showed that the farmer received only 36 per cent of the price paid by the consumer for apples which had been stored three months and sold through the regular channels.

It is not unusual for a retail dealer to double the price of an article and even on staple lines the retailer often adds one half of the cost to him. Thus an article costing the reailer $1.00 is sold for $1.50 or $2.00. The wholesaler's gross margin of profit on such an article is often 15 to 20 cents and the manufacturers selling expense may be over 10 cents. Thus an article with a factory cost of $.75 costs the consumer $1.50 or $2.00. Some articles are distributed more cheaply than this but many others have their price more than doubled between the producer and the consumer. Swift and Company publish figures showing the following distribution of the consumer's dollar: manufacturing costs 37 cents; manufacturer's selling expense 12 cents; manufacturer's profit 4 cents; wholesaler's expense 10 cents; wholesaler's profit 3 cents; retailer's expenses 28 cents; retailer's profit 6 cents. These figures are said to be based on clothing, foodstuffs, and supplies made by forty factories and sold by both large and small dealers. On the basis of these figures 37 per cent of the consumer's dollar goes to pay for raw materials and manufacturing expenses, 50 per cent to cover marketing expenses, and 13 per

cent for profits. In spite of the fact that the expenses of market distribution are commonly equal to or greater than the factory or farm cost of an article the emphasis is still placed on the cost of production. It would seem that as much thought, attention, and study should be devoted to the problem of marketing as to the problem of production.

Herbert Hoover states that as a result of studies of the cost of distribution made by the Food Ad-


WHOLESALER'S EXPENSE 10 CENTS.
WHOLESALER'S PROFIT 3 CENTS
MANUFACTURER'S PROFIT 4 CENTS.
MANUFACTURER'S SELLING EXPENSE 12 CENTS.
RETAILER'S EXPENSE 28 CENTS.
MANUFACTURER'S COST 37 CENTS.
RETAILER'S PROFIT 6 CENTS.

DISTRIBUTION ON CONSUMER'S DOLLAR (SWIFT & CO.'S FIGURES)

ministration it was established that "the margins between our farmers and the wholesaler in commodities—other than in grain in some instances—are, even in normal times, the highest in any civilized state—fully twenty-five per cent higher than in most European countries." He gives as reasons for the expensiveness of distribution in the United States: the great distances between producing and consuming areas; the lack of public markets; the long chain of manufacturers, brokers, jobbers, and wholesalers through whose hands farm products pass; and "the increasing demand for expensive service by our consumers."[1]

More Attention Being Paid to Marketing.—Many persons are now studying marketing and many of them are introducing cheaper methods of distribution. Witness the growth of the chain stores, which not only eliminates one middleman, but as a rule, have many economies of operation. Another example of cheapened distribution is to be found in the self serve stores which claim to operate much more cheaply than the ordinary chain stores.

There are great opportunities in the field of market distribution. The man who reduces the cost of distribution and the price to the consumer is just as much the public benefactor as the man who invents some labor saving machine or perfects some new industrial process and thereby lessens the cost of producing certain articles. The man who reduces the cost of distribution, however, is much

[1] Writing in *Saturday Evening Post,* April 10, 1920.

surer of a financial reward than is the inventor of a new machine or an industrial process.

MARKETING FUNCTIONS

In taking up the study of marketing, the student should have in mind the functions that are performed in the marketing process. The chief marketing functions, in addition to actually effecting sales, are the assembling and dividing of goods, the grading, sorting, packing and standardizing of goods; the transportation of goods; the storing of goods from time of production to time of consumption, the financing of transactions; and the assumption of risks.

Assembling.—Many goods are produced in small units and it is necessary that they be assembled in sufficiently large quantities to be shipped or sold economically. Farm products are generally produced in small quantities by different farmers and it is necessary that they be brought together in quantities large enough to fill a car to be shipped advantageously. This is commonly true of eggs, cattle, tobacco, wool, cotton, etc. It is true that large growers often produce large enough quantities of certain products—wheat, cattle, or apples,—to fill one or more cars. Most farmers, however, operate on a smaller scale and even the large growers often have less than car loads of certain products for sale. Herein lies the necessity of local buyers, country shippers, or cooperative marketing organizations among the farmers. The live stock shipping asso-

ciations exist primarily to perform the assembling function. Certain markets are sometimes referred to as assembling markets.

Goods must also be assembled for sale in the terminal markets. This is true of goods assembled for auctions or for any centralized markets where many buyers congregate. Most dealers, both wholesale and retail, perform an assembling function in bringing many different articles, made by different producers, together for sale to the buyers.

Dividing.—Goods produced or purchased in large quantities must be distributed in small lots to the buyers. The manufacturer must ship goods by the car, case, barrel, or dozen. The wholesale and retail dealers also subdivide goods and sell in smaller quantities than the goods are purchased. This is one of the important functions of many middlemen. One reason why customers cannot buy direct from the manufacturers is that they cannot buy in large enough quantities to make it worth while for the manufacturers to sell to them.

Grading.—Many goods must be graded before they can be sold to advantage. Buyers prefer goods that are of uniform quality so that goods that are so sorted and packed will sell for more than goods that are not properly graded. A farmer may have 200 bushels of apples. He will receive more for these apples in all likelihood, if he separates the varieties, divides each variety according to size, and packs the imperfect apples separately, or discards them altogether, than if he tries to sell the 200 bushels as they

come from the orchard. Buyers do not like to buy goods of uncertain or mixed quality and when a shipment is known to contain some poor goods the value of the whole is likely to be lessened. The buyer must protect himself by estimating the quantity of desirable goods conservatively. Regrading and packing are expensive. Buyers often want only a certain grade of product. Cotton mills must have cotton with certain lengths of fiber for different purposes. Four millers must carefully select their wheat with a view to producing the desired kind of flour. A dealer in the aristocratic part of town may want only the largest and most perfect apples while the dealer in the poorer sections may have a market for smaller or imperfect fruit. Users of steel, often buy the steel under a guarantee as to its exact chemical analysis in order to get the quality desired for their needs. If the goods are not properly graded the buyers must go to the expense of sorting the goods and run the risk of loss in selling the part not needed. It is absolutely necessary that goods sold for future delivery be carefully graded according to definite standards. Future trading would be impossible without definitely established grades.

It is important that foods not only be graded but that they be graded according to definite and uniform standards. It is also desirable that the size of the packages used for marketing various foodstuffs be standardized. Many manufactured goods have been pretty well standardized. This is especially true of branded merchandise. The idea

back of much advertising is to let the buyers know that the advertised brand insures a certain quality, which will always be found in the branded product. Some of the staple agricultural products, such as cotton and grains are now graded according to uniform standards by experts licensed by the government. Many other farm products are either not graded at all or are graded according to different standards in different parts of the country. There is a need for better grading and packing of farm products. Much has been done in this connection in recent years but much more needs to be done.

Methods of grading.—Goods may be graded according to condition or quality of product; variety; size; size of container; method of processing or packing; etc.

As to condition or quality, goods may be graded according to amount of moisture; soundness; uniformity of size; color; shape; sweetness, chemical analysis, etc. The amount of moisture permissable in various grades of grain is carefully specified. Vegetables and fruits must be graded according to soundness ripeness, and uniformity of size and shape. In grading canned peas the uniformity of size is taken into consideration. Color is important in grading many food products. Canned fruits are often graded according to sweetness or specific gravity of the syrup. Canned vegetables are commonly graded and sold as "standard," "extra standard," and "fancy." Poor quality goods are known as "substandard" or "off standard." Many products such

as steel, fertilizers, drugs, etc., are often graded according to chemical analysis.

As to variety, wheat is graded as spring, winter, durum, etc; apples as Kings, Baldwins, Bendavis, Greenings, etc; and canned salmon as sockeye, Alaska red, chinook, Alaska king, medium red, pink, chum, and steelhead.

Apples, potatoes, oranges, lemons, prunes, canned peas, and many other products are graded as to size. Apples are generally graded by passing over holes of a certain diameter, as 2½ inches, and oranges and lemons as to the number in a box. Six sizes of peas are recognized by the canners and are graded by passing over screens with different sized meshes. Peas not so screened are sold as "ungraded" or "ungraded as to size."

In the sale of fruits and vegetables it is necessary to specify the size of the container, as 150 pound bags, bushel baskets, etc. On this point the Federal Trade Commission says:

"Cucumbers, beans, and peas are shipped to the New York market from Florida, Georgia, Virginia, New Jersey, and Long Island, and the packages from each of these sections are of different size. Those coming from Florida are in hampers, which contain a scant bushel if tightly packed. Those from Virginia are much larger containing a little over a bushel, while the shippers from Long Island and New Jersey often ship in bags of no specific weight."[2]

[2] Federal Trade Commission: "Wholesale Marketing of Food," p. 84.

The same conditions prevails with many other products. In canning fruits and vegetables the standard size cans are Nos. 1, 2, 2½, 3 and 10. There is, however, much lack of uniformity. There are three sizes of the No. 3 can. Condensed and evaporated milk is generally put in cans of sizes not listed above. Also baked beans, soup, and canned fish are often placed in cans of other sizes or shapes.

Goods may be graded according to the method of processing or packing. Steel is sold as bessemer or open hearth. Canned corn may be canned "Maine style." Cloth may be bleached or unbleached. Sardines are packed in olive oil, cotton seed oil, mustard, or tomato sauce.

Transportation.—Transportation is one of the most important functions in the marketing process. Steam, steel, and electricity have made possible transportation facilities that reach almost every part of the world. These transportation facilities have led to the development of commerce on a scale that a century ago would have seemed to be an utter impossibility. Without modern transportation facilities there would be less marketing because each community would be more self sufficient and producers and consumers would be much closer together. Many of the problems arising out of the present marketing system would be solved and the number of middlemen reduced. This does not mean that we should tear up our railroads and sink our steamships for commerce gives all of us many products that cannot be produced near our homes and also gives us

other products cheaper than would be possible if they were produced in sections unadapted to their growth. Without commerce Pennsylvania, for example, would be without coffee, tea, oranges, rubber, chocolate, pineapples, gold, diamonds, and many other products and would have to pay more for cotton, sugar, linen, and many other products which the state can produce only at relatively high costs. Transportation will be discussed at greater length in the next chapter.

Storage.—Goods are transported from producing points to consuming markets but after reaching the consuming market it is often necessary that they be stored until needed by the consumers. The greater the distance from point of production the greater the need of storage, for there is greater opportunity of delay in transit and it takes longer to forward orders and receive the goods.

Modern storage methods.—Refrigeration, canning, etc., have given us vegetables, fruits, eggs, fresh meats, butter, etc., throughout the year at more or less uniform prices. Modern transportation and storage facilities have eliminated the old "starving time" as the period before harvest was formerly called in England. Without storage facilities many goods had just as well not be produced as they can not be consumed at the time of production. It is a very common occurance in a good season for large quantities of fruits and vegetables to rot on the farms due to a glutted market and the lack of storage

facilities to keep them until there is a need for them in the consuming markets.

Storage and storage facilities will be discussed at greater length in the next chapter.

Financing.—All business transactions, whether producing or selling, must be financed. Finance is generally regarded as a separate subject and many books are available on banking, corporation finance, business finance, etc. The relation of purchasing, stockkeeping, stock turnover, prices, selling policies, and cash discounts to the use of capital, operating expenses and net profits are discussed in later chapters of this book.

The assumption of risks.—Risk is involved in all business transactions. Anyone who purchases goods for re-sale, in the same or a changed form, assumes certain risks. The goods may be destroyed by fire.[3] stolen by burglars, damaged by flood, losses may result from a drop in market prices, the goods may be rendered unsaleable by a change in demand perhaps resulting from a change of style or improved designs being placed on the market, competition may render it impossible to sell goods at a profit, goods may be sold on credit and the bills prove uncollectible, crop failures or industrial depressions may curtail demand, or a hundred and one other things may happen to cause losses. Some of these risks, such as fire, flood, rain, tornado and burglary can be covered by insurance. Risk of loss from a drop in prices can

[3] The fire loss in the United States from 1915 to 1919 is given as $1,416,375,000.

be shifted to others in the case of a few commodities, such as grains and cotton, by hedging transactions, as explained in Chapter VIII. With most goods, however, hedging transactions are now impossible and the risk of price declines must be borne by the owner of the goods. The advisability extending future trading so as to make hedging possible in other commodities should be carefully studied.

Most of the other risks, or hazards, involved in handling goods cannot be shifted and must be borne by the handlers of the goods. People are willing to assume the risks in the hope of profits. A person with a certain amount of capital has the option of investing it where it will be relatively safe and yield him a moderate rate of interest or of hazarding this capital in a business venture. The greater the risk or hazard, the greater must be the prospective profits to induce him to put his money and time into the enterprise. The smaller the hazard the smaller the profits need be to attract capital and managerial ability. To the extent that risks can be eliminated, or shifted to the shoulders of professional risk takers, the lower profits can be made and the cheaper goods can be distributed. It appears that the cost of shifting risks, when this is possible, is much less than the profit necessary to induce the business man to bear the risk himself. This is true because the one to whom the risk is shifted ordinarily assumes many risks and so can apply the law of averages in determining his rates.

There is a lack of popular understanding as to the

significance of risks. Much has been heard in recent years about profits being too high. To such accusations the manufacturers and dealers reply that profits are necessary to pay for the risks incurred. Here the discussion generally stops because no one has any method of measuring these risks. A few years ago a government commission published figures showing the average profits of the manufacturers in a particular industry to have been equal to 32 per cent. of their invested capital in 1917. Some of the spokesmen for the manufacturers tried to defend themselves by questioning the accuracy of the figures. This was a poor defense for the figures were apparently carefully gathered and tabulated. Another spokesman for the producers, however, met the issue squarely by arguing that 32 per cent. was not an unreasonable profit for a good year, when the losses sustained in poor years were considered.

This question of risks is one that is deserving of serious thought. It is to be hoped that accurate information will be gathered to enable various types of risks to be measured with some degree of accuracy. Very little such information is now available outside the fields of insurance, and credits and collections.

BIBLIOGRAPHY

Cherington, Paul T: "The Elements of Marketing," chs. 4-10.
Duncan, C. S.: "Marketing," chs. 6, 8, and 9.
Weld, L. H. D.: "The Marketing of Farm Products," chs. 8, 11, and 17.
See bibliographies at end of Chapters II and VIII.
For information on grading and packing of farm products see

various publications on the United States Department of Agriculture. For information on the nature and satisfaction of human wants see books on economic theory. For information on financing see various books on money and banking, corporation finance, and business finance. For information on credits see books on credits and collections.

QUESTIONS—CHAPTER I

1. What is the nature of human wants? How does commerce help us to satisfy these wants? Does the satisfying of these wants make us happy?
2. Which has the most wants, the African savage, the oriental philosopher, the middle western farmer, or the New York millionaire? Which is the happiest? Why? Which is the least happy? Why? To what extent does each depend upon commerce to satisfy his wants?
3. Which has the greatest variety of goods, the laborer of to-day or the banker of the 18th century? Which is the happiest?
4. Why are there so many middlemen to-day? How could the number of lessened? Would this be desirable?
5. Which is the most efficient at the present time, the methods of producing or distributing goods? Why?
6. Enumerate the advantages that would follow grading farm products according to uniform standards. Would it be possible to grade fresh vegetables according to uniform standards. Why or why not?
7. How do storage facilities tend to equalize prices throughout the year?
8. What is risk? Would it be desirable that business men be enabled to shift all risks except those depending on their own ability to professional risk takers? Why or why not?

Chapter II

PHYSICAL MARKETING FACILITIES

The physical marketing facilities consist of the equipment for the transportation and storage of goods. The purpose of this chapter is to show the importance of these facilities, the adequacy of our present facilities to perform their functions, and to suggest improvements in the methods of handling goods, especially foodstuffs, during the marketing process.

TRANSPORTATION

Movements involved in transportation.—Transportation involves the moving of minerals from the place of extraction to the mouth of the mine and to the furnace or factory; the hauling of the farmers crops to his barns, to the the local elevator, creamery, or shipping station; of moving raw materials from saw mill, oven, smeltery, mine, or farm to the factory and from one factory to another; of moving finished products from farm or factory to local shipping station or car, from shipping point to city market, from car or boat to wholesale warehouse, from wholesale warehouse to retail store, and from retail store to consumer's residence. It involves movements by wagon, by tramway, by flume, by auto truck, by railroad car, by steamship, by canal

barge, by ferryboat, by elevator, by pipe line, by belt conveyor, by platform truck, by human hand and shoulder, by delivery wagon, and by market basket. It involves movements over country roads, city streets, railroads, rivers, canals, and oceans. It involves loading and unloading from wagons, trucks, and cars; placing in warehouses, piers, shelves, and coolers and taking from these places of storage for delivery to the buyers.

Number of movements illustrated.—The number of times a product is handled between the production of the raw material and the delivery of the finished product into the hand of the ultimate consumer, aside from the handling involved in manufacturing processes, may be illustrated by Cuban sugar. The cane is carried from the fields to the mill, which involves loading and unloading from carts or railway cars or both. After being processed, it is packed in bags, piled in warehouse, from the warehouse it is loaded on cars, hauled to port; piled on pier, loaded in ship, stored in hold, carried to an American port, unloaded, piled, lightered or otherwise transported to refinery, unloaded and piled. After being refined, it is placed in bags or barrels, trucked to warehouse, piled, taken to cars, loaded in cars, hauled to jobbers warehouse, unloaded, piled in warehouse, loaded on trucks, hauled to retailer, and carried into his store. The retailer weighs it out and sells to the consumer. Either the retailer or the consumer carries it to the latters residence where it may be handled several times more

before it is consumed. Sugar is probably not handled any oftener than many other products. In handling products so many times by human hands and mechanical devices there is room for much waste due to unnecessary handling and to poor methods or equipment.

Importance of transportation.—Much of modern civilization has been made possible by the development of the transportation facilities. Transportation has enabled all civilized communities to draw goods from all parts of the world. It has made available for our use a great variety of goods and has enabled goods to be drawn from the sections best adapted to their production. This enables different sections to specialize in those industries to which they are best adapted. To the consuming communities it means that they can purchase their supplies from the sections that can produce them the most cheaply. Having become dependent upon supplies from a distance a transportation system is now necessary to our very existence. Consider the results of a tie-up of the railroads serving any large American city for only a few weeks.

Over 90 per cent. of the food entering our large cities is transported in interstate commerce. It is estimated that the average distance between the producer and consumer of food in the United States is over 1,000 miles.[1] New York City draws its supply of apples from 24 States, its

[1] Federal Trade Commission, "Wholesale Marketing of Food," p. 188.

white potatoes from 23 States, its cabbage from 16 States, its cantaloupes from 15 States, its peaches from 15 States, its tomatoes from 13 States, its strawberries from 12 States, and its sweet potatoes from 8 States. Practically the same is true of all large cities. Sixteen large cities draw their supplies of white potatoes from an average of 23.8 States, and their apples from an average of 16.8 States.[2] The wide sources from which a large city draws its food supplies may be illustrated by the origin of the white potatoes unloaded in Chicago during 1917.

Number of cars of white potatoes originating in different States, unloaded in Chicago in 1917:

The West:	
Wisconsin	2,463
Minnesota	1,194
Idaho	550
Washington	384
Colorado	302
Michigan	274
California	241
South Dakota	197
Illinois	166
Oregon	116
North Dakota	49
Iowa	34
Kansas	30
Missouri	24
Nebraska	23
Indiana	21
Montana	21
Ohio	9
Utah	6
New Mexico	2
The Lower South:	
Florida	389
Texas	379
Louisana	315
Alabama	86
Mississippi	59
North Carolina	22
South Carolina	13
The Upper South:	
Virginia	1,223
Maryland	152
Arkansas	143
Kentucky	114
Oklahoma	105
Tennessee	52
The East:	
New Jersey	187
Pennsylvania	63
Delaware	2
West Virginia	1
Maine	1

[2] *Ibid.*, p. 48 and Map I.

Our Transportation System.—To perform the transportation function there are in the United States approximately 1,000,000 motor vehicles, over 25,000,000 horses and mules, about 66,000 locomotives, about 2,500,000 freight cars with an average capacity of over 40 tons. There are approximately 60,000 miles of pipe lines, about 2,500,000 miles of rural road in the United States, of which about 12 per cent is surfaced. There are approximately 255,000 miles of railroad lines, having a total mileage including sidings and second, third, fourth, fifth or sixth tracks of 400,000 miles. The railroads moved 583,000,000 tons of freight in 1900; 870,000,000 tons in 1908; and 1,388,000,000 in 1918. This shows an increase in the goods transported by rail of nearly 140 per cent in 18 years.

The railroads are generally considered the most important part of our transportation system although the cost of moving goods by human labor, by wagon, by motor truck and by elevator is probably much greater than the cost of transporting goods by railroad. It has been estimated that it costs more to load a car of canned goods in Chicago than to move the car from Chicago to New York. There is a large cost of moving freight before reaching the rail or water terminals and after leaving the terminals. *The Railway Age* has estimated that the American people are paying more for automobiles than for railway transportation.[3] The money spent

[3] Rail revenues for 1919 were $5,200,000,000 while the depreciation and cost of operation of automobiles exclusive of cost of roads and accidents was estimated at $5,500,000,000.

on automobiles, however, is largely for pleasure purposes and not for the transportation of goods. During the war when the railroads had embargoes against many articles, the auto truck was used to move goods to the Atlantic seaboard from points as far west as Detroit and Chicago. Under normal conditions, however, the auto truck seems to be unable to compete with the railroads for long haul business. Due to congestion and delays in rail terminals trucks are being used for hauls up to and over 100 miles. They are reported to have taken a large part of the local traffic away from the railroads in southern New England. The truck's expenses may be higher than the freight rate but it can load and unload at store doors thus saving trucking expenses to and from freight stations. The answers to a questionnaire sent out by a committee of the New England Traffic League showed that in 50 per cent. of the cases where the motor truck was used in New England the motor truck charge from door to door was less than the rail charge from station to station.[4] The motor truck also saves time and frequently does away with the need for crating the goods. Dealers in perishable goods often send their trucks to outlying yards, 2 to 20 miles distant to save the time necessary to have the cars switched to their sidings.

The airplane is a demonstrated success for carrying the mail, but there the no indications of its use in the near future for carrying freight. The motor truck apparently will supplement rather than displace

[4] *Journal of Commerce*, March 5, 1921.

the railroads. Much has been said in recent years of reviving traffic upon rivers and canals. So far, however, little has been done to transfer traffic from our railroads to our inland water carriers and it does not appear that any except the largest and most favorably situated of these water carriers are in a position to move goods cheaper than can be done by the railroads. The railroads then remain the backbone of our transportation system. Their adequacy for the task imposed upon them and their efficiency are of vital importance to the American people.

Adequacy of our railroad system.—During the world war the railroads were unable to properly handle the large quantities of goods offered for shipment. This has caused the public to ask if our railroad facilities are adequate to the needs of the country. They certainly were not adequate to handle the traffic offered during the war, although for several years before the war they were as a whole, able to move all goods offered with reasonable speed. The railroad plant should clearly be developed somewhat in advance of our other industries so that there should be during normal times an unusued margin to take care of rapid increases in traffic caused by industrial prosperity or war. It is generally admited that the roads are not now so developed.

The railroad system is made up of tracks connecting different cities and of terminal facilities within these cities. There are probably some single track roads that need double tracking and some

double track roads that need third and fourth tracks. There are also some sections in the South and West where new lines should be built to open up and develop new territory. A former director-general of railroads gave it as his opinion that only one additional trunk line need be constructed—an east and west line to get around the Pittsburgh gateway. The *Railway Age* estimates that we need 6,000 miles of new line, 15,000 miles of multiple main track and 30,000 miles of side and yard track.[5] The need for building tracks can be largely eliminated by electrification. Electrification almost doubles the capacity of a road over a mountain grade. Such mountain grades often limit the amount of traffic which a given road can move. Electrification also increases the capacity of all tracks having grades or curves. It increases the speed of local trains and makes possible heavier freight trains, both of which tend to increase the traffic that can be moved over a given set of rails. Many plans have been prepared for electrification and as soon as capital is available on better terms it is expected that several stretches of road will be electrified.

Poor terminal facilities.—The terminal facilities of the railroads are admittedly inadequate for present needs. Most delays occur in the terminals. Recent figures show that a freight car is actually moving in freight trains 11 per cent of the time, that it is at the command of shippers for loading or unloading 37 per cent of the time, and in yards

[5] January 2, 1920.

or on transfer tracks 52 per cent of the time. These percentages show plainly the weak spot in our rail facilities. After the return of the roads to private operation on March 1, 1920, the managers started to purchase new cars and locomotives and to increase the efficiency with which the old equipment was used. They state that the average car load was increased from 28.3 tons March, 1920, to 29.8 tons in August, 1920, and that the average number of miles each car was moved per day increased from 23.8 miles in March, 1920, to 27.4 miles in August, 1920.[6] Although such improvements may be noteworthy it does not appear that the terminal situation can be solved by any methods so far brought into general use. It is extremely difficult to secure additional space for terminal purposes in a city. Real estate is very expensive and it is generally impossible to secure space to provide facilities to keep up with the increasing population of American cities. Much could be accomplished by the unified operation of all terminal facilities. The facilities in some cities are at present operated as a unit. It seems, however, that the ultimate solution of this problem develops upon some new method of handling the business.

Suggested remedies for terminals.—In Cincinnati, where conditions were especially bad, a fleet of motor trucks has been introduced to handle less than car load freight shipments between the various freight stations. The bodies of these

[6] *American Railroads,* November 16, 1920.

trucks are removable. When a truck arrives at a station one body is removed with a crane, another quickly swung into its place, and the truck is away on another trip in a very few minutes. This system is reported to be both quicker and cheaper than transfers in railroad cars. Freight that was days in transit from one station to another when moved in freight cars is now moved in hours. If this system were generally introduced the congestion in the city streets might be seriously increased.

Another suggestion for handling less than car load freight is to substitute large steel bins or cases for box cars. These cases would fit upon flat cars and would be placed on and removed from the cars by cranes. They would be loaded and unloaded on station platforms so that cars would not have to be kept standing on the tracks. They could also be transferred to motor trucks and taken to and from shipper's warehouses. This would eliminate the loading and unloading at the station which causes delay and damage by breakage as well as affording the opportunity for pilfering.

During the war the Pennsylvania Railroad introduced a system of "sailing days" for the movement of less than car load freight at certain points on its lines. Under this system freight is received only on certain days for forwarding to certain destinations. There were thus fewer cars at a loading station on a given day and less work in sorting and loading the goods. This system is said to have saved the use of 10,000 cars in Philadelphia in 1919.

Another much more radical suggestion for the quicker handling of cars in terminals is to substitute overhead cranes, which would bodily move the cars from one track to another, for the slow switch engines.

The best brains available should be set to work on the problems of improving transportation facilities in our terminals. The late James H. Hill was one of the pioneers in securing heavy locomotives and moving heavy trains. Other railroad executives followed Mr. Hill's example until to-day the American railroads are the most efficient in the world in the moving of traffic between our terminals. The benefits of this efficiency are, however, partly lost due to the inadequacy or inefficiency of our city terminals.

Car shortages.—Another cause of serious complaint against our railroad system is its frequent inability to supply all shippers promptly with cars. During periods of industrial prosperity, and, especially during the fall crop moving seasons, car shortages are often acute, while in periods of industrial depression the railroads are generally able to furnish cars promptly to all shippers. The American Railway Association publishes figures showing that the car surplus in the long run exceeds the car shortage. A car surplus means a loss to the roads just as a shortage means a loss to the shippers. The shippers feel that the roads should provide facilities to handle the maximum and not merely the normal traffic movement. The net freight car shortage

amounted to 149,865 cars on February 6, 1907; 114,908 cars on November 1, 1916, and 146,070 cars on September 1, 1920. On the other hand, the net surplus of cars amounted to 413,388 on April 29, 1908; 327,084 on April 1, 1915, and 450,000 in March, 1919. Many shippers experienced difficulty in securing cars during the period from the fall of 1915 to the fall of 1920 with the exception of the six or eight months following the signing of the armistice. Car shortages can be prevented perhaps by a more efficient use of cars rather than buying more cars to further congest the railroad terminals.

Wastes and losses due to poor transportation facilities.—Our transportation facilities have apparently not kept pace with the expanding area of the markets and the increased quantities of goods to be transported. This inadequacy of facilities increases the cost of handling goods, involves delay and damage to goods, decreases the prices paid to producers, and adds to the cost of the goods to the consumers as shippers and middlemen must increase their profits to cover the risks of loss, damage and delay.

High costs.—It has been estimated that $90,000,000,000 of commerce passed through our rail and marine terminals during 1919 and that about one-third of the cost of this commerce, or $25,000,000,000 to $30,000,000,000 was due to inefficiency and preventable wastes in handling between producers and consumers. Each middleman must add

expenses (and profits) to cover the cost of moving goods from car to warehouse, wharf to truck, etc. It is estimated that the railroads could save an average of 15c per ton by handling freight by mechanical equipment and many vessels could save as much more.[7]

Poor facilities in New York.—Many of our ports are not properly equipped. The situation in New York is especially bad both for handling domestic and foreign shipments. New York is trying to handle modern commerce with methods fifty years out of date. There are relatively few modern piers in New York Harbor and almost none on Manhattan Island. Goods arriving by rail on the Jersey shore are floated across the river on car floats and delivered at railroad owned piers on Manhattan Island or in Brooklyn. Most of the foodstuffs arrive on the lower west side from which section they are carted to all parts of the city. The distances are so great to some parts of the city, as the Bronx or Staten Island, that it often takes a truck the best part of a day to make one trip. New York consumes over 1,000 cars of fruits and vegetables per week. The sale of southern vegetables is held on piers 28 and 29, North River at 3 a. m., so that the goods can be on the retail stands for morning trade and so that the piers can be used for other purposes during the day. Trucks often have to wait for hours, and even days to get into the piers. It

[7] Forst, Haywood: in *American Business & National Acceptance Journal,* May, 1920.

is reported that wagons are sometimes smashed and horses killed in the rivalry for position. For hauling goods between the piers and stores on lower Manhattan horse-drawn vehicles still predominate, as the movement of traffic is so slow that there is no economy in the use of motor trucks. "The direct trucking expense under such awkward conditions is enormous, while the indirect consequences through delays and damage and stealage is perhaps even greater."[8]

Multiplicity of terminals increases cost of handling food.—New York City receives its supply of food over 9 railroads and 45 steamship lines. Chicago has 27 railroads, nearly all of which have their own terminals. Poultry alone arrives at 17 different terminals. The yards in Chicago are located from a quarter of a mile to two miles from the produce market on South Water Street. A large part of the perishable foods must be carted through the busy Loop district to reach the produce market and then carted to retailers in all parts of the city or, if sold to out of town buyers, carted back across the Loop to the rail terminals. Over 180,000 cars of perishable foods reach Chicago anually, about half of which are reconsigned to other markets. This reconsignment often causes a delay of from 2 to 4 days to the cars and also adds to the congestion of an already crowded terminal district. In Minneapolis there are eight terminal yards located

[8] Federal Trade Commission: "Wholesale Marketing of Food," pp. 118, 119, and 214.

from 2 blocks to 2 miles from the produce market district. St. Paul also has eight yards and most of the produce has to be hauled to the dealers' stores. The perishable food for San Francisco is unloaded at eight places all at a distance from the produce dealers. Norfolk has 6 railroad terminals and many wharves; Wichita, Kansas, has five terminals located from two to fifteen blocks from the produce market. A dealer on a given day may have cars arrive at several different terminals, which involves extra expenses for cartage, inspection, etc. A St. Louis poultry dealer, for example, has to send feed to two freight yards located in opposite directions and each five miles from his store. The average cost of carting fruits and vegetables from the rail terminals to the stores of the wholesale dealers in Chicago, Indianapolis, Detroit, Cincinnati, Columbus and Louisville, is equal to about one per cent of the gross sales of the dealers.[9]

If all food arrived at one terminal near which the dealers had stores a large saving would be made in cartage expenses. The damages resulting from cartage and hauling would also be reduced. Yet if a joint terminal is not properly handled no benefits may result. In St. Louis the terminal railroad is supposed to handle all cars and yet there is so much delay in switching cars to the tracks near the dealers' stores that many of the dealers truck their goods from scattered terminals, several of them across the River in East St. Louis. Oftentimes a merchant

[9] *Ibid.*, p. 126.

has a siding connected with one road and yet all shipments arriving from other roads must be carted, because of the delay in switching the cars. This is a common practice with the perishable food dealers in Minneapolis, Cincinnati, Louisville, Kansas City, Providence and many other cities. Some dealers state that they had just as well not be located on any road as most of the goods have to be carted any way and it is just as well not to be tied up with any one road.[10]

Delays.—Except in periods of severe congestion, of extreme weather, or of labor troubles, there is little complaint about delays in rail shipments during the movement between terminals. There is, however, serious complaint of delays in terminals. In Cincinnati, "if a dealer wants a car sent to a particular terminal either it is not sent at all, or if switched there is a delay of four or five days longer."[11] Similar delays of 24 to 48 hours are reported in Minneapolis and St. Paul; of 36 hours in getting cars from East St. Louis to St. Louis; and of 36 to 48 hours in getting cars placed in Louisville after they reach the west end yards, if they happen to arrive at this yard. It is said to take as long to get a car over the belt line in Philadelphia as to get it to Philadelphia from Chicago.[12] The delays in the classification yards, and transfer tracks are often quite serious. It ordinarily takes several days to

[10] *Ibid.*, pp. 114-118, and 97-101.
[11] *Ibid.*, p. 98.
[12] *Ibid.*, pp. 97-100.

get a car through the Chicago terminal. Such delays not only tie up the capital of the shippers for long periods, but require more equipment on the part of the railroads, and result in heavy losses to perishable products, not to mention the extra cost of feeding livestock and icing refrigerator cars. Perishable foods are sometimes delayed in transit for reconsignment. Shippers in the West and South commonly ship their goods before they are sold, expecting to sell them while they are "rolling" or to divert them to the market that appears to offer the best price. Goods from the South, for example, are commonly reconsigned at Potomac Yards (Va.), Cincinnati, Louisville, or Mounds (Ill.). As the prices of fruits and vegetables fluctuate widely from day to day and week to week in different cities this practice tends to equalize the supply and protect the shippers. It does, however, delay cars, increase the congestion of terminals, and add to the spoilage of foodstuffs and should, therefore, be reduced to the minimum.

Damages to foodstuffs.—Damages result from delays in transit, from improper equipment, from improper loading or overloading, and from carting in unfavorable weather or over poor streets.

Delays in transit are estimated to cause a loss in fruit of from 5 to 10 per cent of the amount handled. Strawberries are said to lose from $5 to $10 per car for every hour they are delayed beyond a certain length of time. The loss on a car of

onions, potatoes, or watermelons may be as much as $100, if the car is two days overdue.

Improper equipment results in heavy damage to foodstuffs. Perishable foods are shipped in ventilated cars that should be shipped in refrigerator cars, and goods are shipped in ordinary cars that should be shipped in ventilated cars. When new potatoes are shipped in box cars and delayed in transit beyond four days, 8 or 10 barrels are rotted in each end of car.[13] There is also a serious loss due to lack of heated cars in winter. Freezing causes very heavy losses. It has been estimated that Spain lost $1,000,000 on Almeria grapes in 1920 due to lack of proper ventilation during ocean shipment.[14]

Overloading often causes serious loss to perishable foods. The air in the top of a refrigerator car is not cool and if foods are loaded above a certain point they will not be kept cool. For example, it is said that only four tiers of Georgia peaches can be protected in a refrigerator car, yet the minimum car load requires five tiers to be shipped, which means that the top tier arrives overripe and must be sold for 20 per cent less than is received for the peaches in the four lower tiers.[15] Overloading of green vegetables in poorly ventilated cars leads to overheating and sweating. Serious complaint is made

[13] *Ibid.*, p. 88.

[14] E. S. Godsell, Manager foreign fruit brokerage department of Fruit Auction Company of New York, writing in *Journal of Commerce*, January 24, 1921.

[15] Federal Trade Commission: "Wholesale Marketing of Food," p. 90.

against steamship companies for improper loading of perishable foodstuffs, such as loading fruit over sugar where it is damaged by the heat, or loading other goods on top of fruit and vegetables and so cutting off ventilation.

The damage from handling and carting goods is considerable. This is especially true where products like eggs must be carted over rough streets. Damage also results from exposure to heat or cold while in trucks. There is also a heavy damage to eggs from switching the cars. In fact, most of the damage to eggs in transit is thought to occur as a result of switching. Eastern dealers report the loss of eggs due to breakage from 5 to 10 per cent.[16] The failure to keep refrigerator cars properly iced causes a very heavy loss to fruits, vegetables, butter and eggs.

Messengers in charge of cars.—Some large fruit growers and shippers send messengers with their goods to see that they are properly cared for in transit. These messengers attend to the temperature and ventilation of the cars. They see that the cars are properly iced, that ventilators are opened and closed under the proper conditions. They start the stoves when the cars are in a cold area. They see that the cars are kept together and upon arrival at destination they see the goods are properly unloaded. It is stated that much of the damage to foodstuffs in transit is due to the fact that the railroad employees are ignorant of the proper methods of car-

[16] *Ibid.*, p. 109.

ing for the goods. Small shippers are unable to provide such messengers. The suggestion has, therefore, been made that the railroads provide special men who are familiar with the handling of foodstuffs to see that all cars of perishable food are properly handled. Such men could be stationed at loading, icing, diverting and unloading points, or could be sent with trains of perishable foodstuffs as seems best. At the loading points they should see that goods are properly cooled, iced, loaded, and braced. At the icing stations they should see that all cars receive proper attention. Cars of cauliflower and celery should be allowed to run for a few hours with the vents open and plugs out if the temperature permits. At the diverting points all cars should be inspected and the owners advised of all cars in poor condition so that they could arrange for their quick sale, perhaps selling at or near the diverting point. At the unloading points they should see that all cars are properly unloaded and the goods protected as much as possible from the weather. They might also act as inspectors to pass on the quality or grade of all cars involved in a dispute. It is believed that the use of such men would lessen the damage to goods and hence the cost of marketing the goods.[17]

Car shortages are expensive.—Shortages of coal cars have been especially serious. Most mines have little or no storage space, so that when cars are not available the mines must close. This throws

[17] *Ibid.*, pp. 104-106.

the miners out of work while the overhead expenses of the mining company go on just the same. Work at many mines has been very irregular, cases have been reported of mines being able to operate only one, two or three days a week. As the miners must live seven days a week such conditions mean that the wage scale must be high enough to allow the miners to make a living in the number of days worked. This increases the cost per ton of mining coal and results in high prices to the consumers or losses to the operator.

Another serious result of car shortages is the irregular supply of goods delivered to the consuming markets. This irregular supply results in wide fluctuations in price. When supplies are short prices rise considerably. On this point Herbert Hoover, former food administrator, said, "On one occasion a study was made under my administration into the effect of car shortage in the transportation of potatoes, and we could demonstrate by chart and figure that the margin between the farmer and the consumer broadened 100 per cent in periods of car shortage. Nor did the middleman make this whole margin of profit, because he was subjected to unusual losses and destruction, and took unusual risks in awaiting a market. The same phenomenon was proved in a large way at time of acute shortage of movement in corn and other grain."[18]

Risks increase the margin between the producers and the consumers.—Each middleman who han-

[18] Writing in the *Saturday Evening Post*, April 10, 1920.

dles an article tries to obtain a profit to cover all the risks involved in the transaction. The greater the risks the greater the profits. When risks can be shifted by insurance, or hedging, the dealers can include the expense of this shifting in their costs and so do not need to add profits to cover the possibility of losses from such risks. When such risks cannot be shifted the dealers must figure on larger profits so that reserves will be available to meet the losses. Prices are fixed in the central markets. Dealers buying goods for shipments to such markets must protect themselves by paying the producers less for their goods. For example, if a shipper of eggs knows that eggs are often broken in transit he protects himself by paying the farmers less for their eggs. Dealers handling goods between the central market and the consumer must increase their selling prices to cover such risks. The price paid to the producers is lowered and the price charged the consumers is raised to cover all the risks involved in marketing goods. It is, therefore, in the interest of both that the risks of loss or damage from improper loading, from poor equipment, from rough handling, from exposure to the weather, from lack of proper storage facilities, from delays in transit, or from irregular or fluctuating prices be reduced as much as possible. Future trading in many products is probably impractical, but great benefits should follow a better and more uniform grading of products, of more careful packing, of better terminal facilities, of a more adequate supply of cars,

and of a more even distribution of each product to the various consuming markets. This latter is especially important as it would tend to a greater uniformity in prices.

STORAGE

Storage involves the keeping of goods from the time they are produced until they are consumed. It includes storage in the farmer's barn, granary, cellar, or vegetables or fruits banked in the ground. It includes storage in the warehouses or yards of mills, factories, mines, and stores. It includes storage in cold storage plants, grain elevators, merchants' shelves, and consumer's pantries. Railroad cars are primarily for transportation purposes, but are also often used for storage purposes.

Importance of storage facilities.—It was pointed out in Chapter I that the keeping of goods from the time they were produced until they were needed for consumption (the creation of time utilities) was just as necessary to the satisfaction of the human wants as was the original production of goods.

In recent years there has been a tendency for dealers and manufacturers to carry just as small stocks of goods as possible to permit the uninterrupted conduct of their business. When transportation facilities are dependable this is generally good business policy. It is, however, necessary for some one to carry the goods which are produced only at certain seasons of the year until they are needed by the consumers. The heaviest egg production comes

in the spring, and it is very important that the surplus be stored for use during the following winter when the production is very low. The heaviest milk production also comes in the spring, and it is very desirable that the surplus milk be made into butter or cheese and stored, or evaporated, condensed, or powdered for use later in the year. The season for some vegetables, such as potatoes, is spread over a considerable length of time by drawing supplies from different latitudes. Potatoes from Florida are placed on the northern market in the early spring and as the season advances supplies are obtained from sections further and further north, ending in the fall in Canada and such Northern States as Maine, Michigan and Wisconsin. There remains, however, a period of several months from the end of the northern digging season until adequate supplies are received from the South. Potatoes must be stored for use during this season. Nearly all farm products are harvested in relatively short periods. Cotton, wool, wheat, oats, corn, barley, rye, tobacco, hemp, etc., must be stored to secure a uniform consumption throughout the year. Seventy-one per cent of the wheat sold by the farmers is marketed during four months—July, August, September and October. Eighty-five per cent of the boxed apples are placed in cold storage for a shorter or longer period. Some of the farm products require special storage facilities as heated, dry, or cooled space.

Many other products are stored for considerable

periods of time. This is done with Lake Superior iron ore, for example, which is transported on the Great Lakes. As navigation is closed on the lakes during the winter, sufficient supplies must be carried at the lower lake ports and in the mill yards to keep the furnaces in operation during the winter months. The Northwest gets its coal supply largely by lake, so that the winter supplies must be received at the upper lake ports before the navigation season closes.

Some products must be stored for a considerable period of time before they are ready for the market. Lumber is often allowed "to season." Smoked meats, cheese, tobacco, and hides are examples of products that need a certain time for curing. Manufacturing processes, however, have in many instances reduced the time necessary for curing.

Goods must also be stored to equalize the supply over the consuming area. This is one of the primary functions of the wholesale dealers. Many goods also should be stored for relatively short periods due to irregular or bunched arrivals. Thus the supply of peaches, cantaloupes, tomatoes, or any other similar product arriving in a given city may be very large one day and very small a few days later. Serious loss occurs when proper storage facilities are not available to store such products for short periods.

It is apparent from these facts that producers and consumers are both vitally concerned with storage facilities. When facilities are inadequate to properly meet the needs of the community losses oc-

cur which tend to increase the prices to the consumers or decrease the prices to the producers.

Storage facilities.—To provide facilities for performing the storage function many warehouses, cold storage plants, and elevators have been provided by manufacturers, merchants, railroads, and warehouse companies. A few figures will help us to appreciate the magnitude of the facilities that have been provided and they are not always adequate to the needs of the country. Chicago has grain elevators with a capacity of about 45,000,000 bushels, and warehouses, aside from cold storage warehouses, with 4,500,000 square feet of space. There were in the United States in 1913, 3,485 cotton warehouses with a capacity of nearly 14,000,000 bales, aside from the warehouses of the cotton mills.[19] There are about 30,000 country elevators and grain warehouses in the United States.

The total amount of cold storage space in the United States is shown by the following figures:

REFRIGERATION SPACE IN THE UNITED STATES[20]

Warehouses	*Number*	*Capacity Cubic Feet*
Public Cold Storage Warehouses	334	169,362,490
Packing Houses Doing a Public Cold Storage Business	24	29,858,119
Public and Private Warehouses	216	45,304,945
Packing Houses	440	236,191,285
Private Cold Storage Warehouses	268	16,243,326
Total	1,282	496,960,165

[19] Duncan, C. S.: "Marketing," Ch. 8.

[20] Figures furnished by Bureau of Markets, U. S. Department of Agriculture.

There are 1,327 branch houses of interstate slaughtering houses, all of which have cooler space.[21] In spite of all the facilities that have been provided there is in many parts of the country a shortage of the proper kind of storage space. The Federal Trade Commission as a result of an exhaustive survey of the food marketing methods and facilities, has reported that many of our cities do not have adequate cold storage space for perishable food stuffs.[22]

Public warehouses.—Public warehouses are generally privately owned, but are subject to public regulation. They hold themselves out to store certain types of goods under certain conditions. When goods are stored with them a warehouse receipt may be issued which carries title to the goods. The owner of this receipt frequently takes it to the bank and pledges it as security for a loan. On staple commodities the banks will often loan almost up to the market value of the commodity. In this way the capital needed by the owner of the goods is reduced and the carrying of such goods made fairly easy. The cost for storage space, insurance, and interest is relatively low and can be calculated when the goods are stored. The owner thus knows how much the market must rise to make his venture profitable. It is said that wheat can be carried in this way for about one-half cent per bushel per month

[21] Federal Trade Commisison: "Report on Meat Packing Industry," Pt. 4, p. 32.

[22] "Wholesale Marketing of Food," pp. 137-142, 259 and 246.

and eggs at one-half cent per month per dozen. This method of financing is often used in carrying grains, butter, eggs, cotton, beans, staple groceries, and many other products.

Non-fungible and fungible goods.—In most cases the owner receives from the warehouses the identical goods, but in other cases where the product is standardized the owner receives only the same number of units of the same grade as he delivered to the warehouse. This is commonly done with grain and cotton. Such goods are known as fungible goods and may be mixed with the same grade of similar goods. This practice is permitted for economy. It would be very expensive if not altogether impracticable for a grain elevator to keep each lot of grain separate. Such a requirement would practically mean that grain would have to be handled in sacks.

Adequacy of storage facilities.—A few years ago a great deal was said about the lack of adequate storage facilities in the west and south necessitating the shipment of farm products as soon as harvested. This caused a serious bunching of traffic on the railroads and often resulted in slow movement of goods and car shortages. If the railroads could not move the goods promptly, serious damage resulted from exposure to the weather. When storage space was not available the farmers were forced to sell at once regardless of whether the price was satisfactory or not. To overcome these difficulties many storage buildings have been provided and much less is heard

of the lack of proper storage facilities in the producing sections. Facilities for the handling of perishable foodstuffs are, however, still inadequate at shipping points.[23]

Adequacy of cold storage facilities in various cities.—The Federal Trade Commission in 1918 made a study of the adequacy of the cold storage facilities in several American cities. The branch houses of the large meat packers are generally properly equipped with cooler space. There is, however, a serious shortage of cold storage space for other perishable foodstuffs in many cities. The facilities were reported to be ample in Birmingham, Ala.; Seattle, Wash.; Chattanooga, Tenn.; Hutchinson, Kan.; Richmond, Va.; and Witchita, Kan.; but in the two last named cities the warehouses were poorly situated. The facilities were reported inadequate in Philadelphia, Pa.; Boston, Mass.; Harrisburg, Pa.; Norfolk, Va.; Jacksonville, Fla.; Pensacola, Fla.; Houston, Tex.; San Antonio, Tex.; and Wilmington, Del. The facilities in the last two named cities were also reported to be of very poor quality. Wilkes-Barre, Pa.; Savannah, Ga., and Knoxville, Tenn., were reported to be entirely without cold storage facilities, available to the produce dealers. Charleston, S. C., was in the same position except that some of the dealers had small coolers of their own. In Pittsburgh the cold storage warehouses were located at a distance from the produce market but seemed to meet the needs of those who desired

[23] *Ibid.*, pp. 86-87.

to cart their goods the necessary distance. New York and Chicago had adequate facilities prior to the war, but were unable to properly handle all the goods needing storage during 1918. Buffalo had adequate space but suffered from high rates and an arbitrary management by a monopoly. Boston also suffered from high rates and arbitrary rules. The plants in New York and Boston had no rail connections so that all goods had to be carted to the warehouses. In few cities has the construction of warehouses since 1918 kept pace with the increase in the need for storage space.

Wastes due to poor storage facilities.—Fruits and vegetables are often carefully picked, graded, packed and carried to the city markets under refrigeration, where they are unloaded and handled with little or no protection from the weather. Large amounts of goods are lost due to the heat and cold. During extremely cold weather the loss from freezing is very heavy. Oftentimes goods must be kept in the cars until the weather moderates. This causes serious delay to the cars. Perishable foods discharged from vessels into unheated piers cause a serious loss from freezing. Whole cargoes are sometimes lost in this way. In January, 1918, it is estimated that $500,000 worth of foods were destroyed in New York City as the result of freezing. In Pittsburgh the loss from freezing is estimated at 10 to 15 per cent in zero weather.[24] "Every year millions of dollars' worth of fruits, vegetables,

[24] *Ibid.*, pp. 123-24.

and eggs throughout the country are partially decomposed in refrigerator cars without ice as well as upon docks and freight floors."[25] In many cities the stores of the produce dealers are old and inadequate for present needs. Goods must be piled on the sidewalk, in the street, or sold from truck or railroad car. Coolers are often lacking. Inadequate storage facilities undoubtedly cause serious damages not the least of which arise from inability to store goods for short periods when there is a glut in the local market.

Serious losses are reported in other products. The country loss to cotton has been estimated as high as $75,000,000 per year. There is also a serious loss of grains and many other products which could be materially lessened by proper storage facilities.

Inadequacy of facilities for marketing foods.—It is apparent from what has already been said that the facilities for handling foodstuffs are inadequate to present needs in many places. Many of the city market districts are extremely congested, without rail and water connections, and not located near the centers of the populations which they serve. Conditions are worse in some cities than in others. The situation is worse in Chicago and New York than in some of the smaller cities. For example, Hutchinson, Kan., is reported to have ample facilities.[26] Goods often must be carted from rail terminals

[25] *Ibid.*, p. 102.
[26] *Ibid.*, pp. 118 and 142.

over congested streets, to the produce markets and then after being sold are often carted back to terminal for out-of-town shipment or past the terminal for delivery to the retailers. One expert has estimated the needless waste at the South Water Street market in Chicago at $5,000,000 a year. The buildings are often old and poorly adapted to their needs. The rents are also frequently high. Proper storage facilities are often lacking. The market facilities in many cities are no better than they were forty or fifty years ago. They have not developed to keep up with the increase in population.

REMEDY FOR SITUATION IN TERMINALS: CENTRAL WHOLESALE MARKETS

One of the remedies proposed to meet the present unsatisfactory conditions of handling foods in the city terminals is the establishment of central wholesale markets. The Federal Trade Commission has recommended that such markets be established in the cities and larger towns by the Federal Government and operated by individuals under government supervision.[27] According to their proposal the handling of all foodstuffs received by rail or boat would be centralized in one large market in each city. These markets would be strategically located and properly equipped with all physical facilities for properly unloading, handling, and storing all foodstuffs reaching each city. In the larger cities one market might be needed for handling fruits and

[27] *Ibid.*, pp. 18-24, and 185-195.

vegetables, another for handling dairy and poultry products, and a third for handling staple groceries, if they were included in such a system. New York and Chicago might need two or more such markets for handling each of these three classes of products. Such markets need not necessarily be owned by the government for they could be built by private, or transportation companies. A certain amount of government supervision is, however, advisable, although there is a considerable difference of opinion as to the proper extent and direction of such supervision.

Location.—Such a market should have direct connection with all rail and water lines entering the city and should also be easily accessible to the retail stores. It would be impossible to secure ideal locations in some cities, but locations superior to those of the present produce markets could be found in many cities. Adequate buildings should be constructed providing protected platforms for unloading the goods and floor space for the transaction of business by the dealers. Both heated and cold storage space should be provided in the basement and on the upper floors. Coolers could also be provided on the first floor for the daily needs of the dealers. Auction rooms and office space for the various dealers should be provided on the second floor. Space in this market would be rented to all dealers on an equal basis and at reasonable rates. The rents in some of the present produce markets are said to be exorbitant. One authority has estimated

the excess rent paid by two hundred firms in the South Water Street market in Chicago at $720,000 a year.[28] The fruits and vegetables, and perhaps other products, would be unloaded at night when the first floor would be closed to the dealers. The market would be opened at a fixed hour in the morning, which might be 3 A. M., as at the fruit and vegetable piers in New York, 5 A. M., as on the unloading platform in Philadelphia, or at a later hour. A plan for the first floor of one unit of such a market is presented in Chart II. This is only to furnish a general idea of such a market as the details of size and arrangements would vary with the size of the city, nature of market-space available, etc.

In this plan two railroad tracks are placed in the middle of the unit. On each side of the tracks is a passage way, or alley, for use in trucking goods from one part of the market to another. Alongside these aisles, or passageways, elevators are placed at convenient distances for carrying goods to the different floors. On each side of the passageways, and occupying the greater part of the first floor, is the space for the dealers. Here their goods are placed at night and here they transact their business during the day. This space is pooled for the fruit and vegetable dealers and not divided by partitions so that the space may be utilized to better advantage. This seems advisable due to the fact that the various dealers receive different quantities of goods on different days. Each dealer would,

[28] *Ibid.*, p. 147.

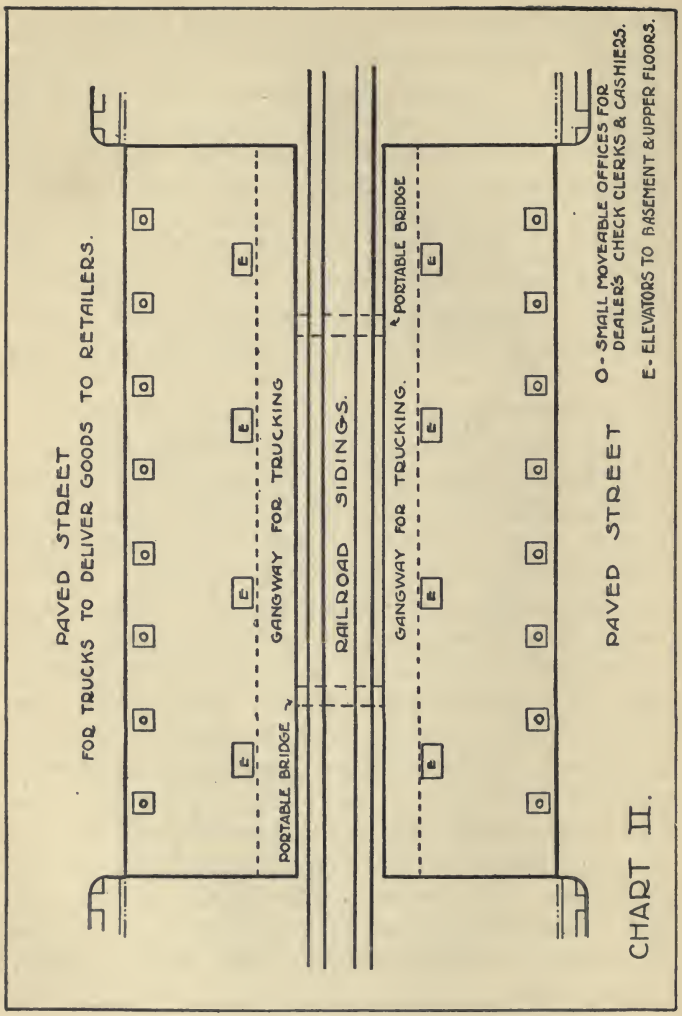

PAVED STREET
FOR TRUCKS TO DELIVER GOODS TO RETAILERS.
PORTABLE BRIDGE
GANGWAY FOR TRUCKING
RAILROAD SIDINGS.
GANGWAY FOR TRUCKING.
PORTABLE BRIDGE
PAVED STREET
O - SMALL MOVEABLE OFFICES FOR DEALERS CHECK CLERKS & CASHIERS.
E - ELEVATORS TO BASEMENT & UPPER FLOORS.

CHART II.

however, have his goods placed in the same part of the market regularly. On the sides opposite the tracks are paved streets for trucks carrying outgoing goods.

Outbound rail shipments.—Cars are left on the tracks during the day to be loaded with goods for shipment to other places. Enough cars are removed to permit gangways to be thrown across these tracks every two or three car lengths to permit easy access between all parts of the market. Goods can easily be trucked from all parts of the market for loading into these cars. These cars are intended for small wholesalers who buy goods in the market and ship mixed cars. That is they make up a car of several articles, *e.g.,* apples, oranges, lettuce, cauliflower, cabbages, etc. In a large distributing market the cars might have to be "pulled" in the afternoon and a second bunch placed for loading. Cars reconsigned to other markets should not be unloaded but should be left on outside tracks for inspection. The dealers would notify the market management before the arrival of cars as to whether they wished them unloaded or reconsigned. Smaller consuming markets would not need facilities for large outward rail shipments.

Proper public regulation.—The Trade Commission proposes that all dealers be required to secure a federal license before being permitted to do business in this market. Under this license no dealer would be permitted to engage in any unfair practices, to charge unreasonable prices, to make un-

reasonable profits, to be both buyer and seller in one transaction, or to engage in any activities to manipulate prices. It is also proposed that any shipper could consign his products to the manager of the market, or to the supervising government agent, who would have them stored, if necessary, and sold at auction or by a commission merchant and see that the proper return was made to the shipper. Some persons object that the regulation proposed is too drastic, but a certain amount of government supervision is generally admitted to be necessary. For example, in grading and inspecting goods; settling disputes between buyer and seller, and between dealers where no provision for arbitration exists; in seeing that the market is kept in a clean and sanitary condition; in gathering and publishing figures as to the amount of goods on hand, in transit, and as to prevailing prices; in supervising activities of commission merchants; and in seeing that the market is operated efficiently and that all dealers received fair treatment. The proposal that all shippers be enabled to ship to the market with the assurance that they would receive fair treatment is a good one.

Advantages.—Such central wholesale markets possess many advantages over the present system. Among the advantages might be enumerated: Saving of perishable foodstuffs due to unloading on a closed platform protected from the weather; saving of foodstuffs due to having proper storage space at hand; saving of foodstuffs now lost due to cartage

from cars to store and from store to cars, for goods going to out-of-town buyers; saving of carting expense, the only carting required being from wholesaler to retailer, and from retailer to consumer, lessening speculation by equalizing the supply by adequate storage facilities, thus making far more uniform prices; saving time of buyers by having all wholesalers in one location; saving demurrage charges and releasing cars more promptly due to a quicker unloading by one management; shortening trade channels as the retailers would buy directly from the wholesale receivers; lessening unfair trade practices and unreasonable prices and profits by government regulation; preventing monopoly and securing cooperation of all factors engaged in the wholesale marketing of foods; securing efficient operation by retaining competition and the incentive of private profits; and lowering the cost of handling foods by efficient equipment and adequate facilities. Such markets should lessen the cost of marketing foods and so lower prices to the consumers and raise prices to the producers.

Limitation.—Such markets would cure only a part of the evils. Need would still exist for improvements in packing, loading, and transporting goods to the city markets. Such markets would not materially alter retailing methods, although some advocates propose that retail markets be included in the plans alongside the wholesale markets. Retail markets might be desirable if space were available, but they

would benefit principally the consumers living near the market.

Difficulties in establishing central wholesale markets.—It would be hard in many cities to find locations large enough for the purposes, capable of being easily connected with all rail and water lines entering the city, and centrally located for distributing goods to the retail dealers. The location should be not only large enough for present needs, but should also be large enough to permit expansion of facilities to meet the needs of an increasing population. The establishment of such markets should also involve a considerable capital outlay. It is also argued that it would be unfair to property holders in the old produce market sections to bodily move the markets to new sections of the city. Much of the opposition to the establishment of such markets comes from the property owners in the old sections who fear that much of the value of their property would be destroyed as no other tenants could be found who would pay equal rents. A real disadvantage of such markets is that in case of destruction of the market buildings by fire or other disaster the food supply of the city would be seriously imperilled while the buildings were being replaced.

Etablishment of central wholesale markets for foods.—The establishment of central markets have been considered in many cities. A subsidiary of the Southern Pacific Railroad has constructed adequate physical facilities in Los Angeles, but this market has connection with only one railroad system. The

Wabash Terminal in Pittsburgh (Pittsburgh and West Virginia Railroad) provides facilities along the plan outlined above for the Pittsburgh butter and egg wholesalers, but there are three rather serious criticisms of this terminal. First, it has connections with only one road and this road extends only to the west, and does not have the best of connections; second, there is no room for expansion to take care of increased business; and third, the coolers in this building take care of only the short time needs of the dealers, goods to be stored for a long time must be carted to the warehouses in other parts of the city. A market has been provided at Atlanta by three railroads where most of the dealers are located. The Linden station in Memphis provides facilities for eight wholesale grocers and one produce dealer, but this leaves most of the perishable food dealers outside this station. The fruits and vegetables arriving in Philadelphia over the Pennsylvania railroad are unloaded on a platform in West Philadelphia. Here the car lot receivers sell to the jobbers. This platform is scarcely adequate to the present needs of the city, and does not provide space for the jobbers so that most of the produce is carted across the city to their stores. None of these facilities fulfill the conditions prescribed for public central markets as regards public regulation and connection with all transportation lines. Most of the produce dealers are in favor of central markets having adequate facilities, but, of course, differ regarding the details and the amount

of public supervision that is desirable. It is to be hoped that such markets will be established by private or public capital. Undoubtedly better facilities would already have been provided in many cities except for the financial difficulties resulting from the world war.

BIBLIOGRAPHY

A very large part of the books and articles bearing on marketing contains more or less information on the transportation and storage of goods. It would be impossible to enumerate all such books here. The reader is, however, referred especially to the references given at the end of the chapter on Produce Exchanges and the Question of Speculation (Chapter VIII), many of which describe the facilities for handling certain agricultural staples. The United States Department of Agriculture has also published many useful bulletins.

There are a large number of books and periodicals that bear on transportation. For the beginner Johnson and Van Metre: "Principles of Railroad Transportation," is recommended.

The following references bear more or less directly on the topic:

Federal Trade Commission: "Wholesale Marketing of Food," 1920.

Weld, L. H. D.: "The Marketing of Farm Products," Chs. 8 and 11.

Nourse, E. G.: "The Chicago Produce Market."

Duncan, C. S.: "Marketing," Ch. 8.

Hoover, Herbert: "Some Notes on Agricultural Readjustment and the High Cost of Living," *Saturday Evening Post,* April 10, 1920.

Frost, Haywood: "Waste and Inefficiency add to all Consumers Costs," *Amer. Bus. and Nat. Accept. Journal,* May, 1920.

"Annals American Academy of Political and Social Science" for November, 1913 (vol. 50), contains several articles bearing on this subject.

Pennington, M. E.: "Relation of Cold Storage to the Food Supply and the Consumer," Annals of Amer. Acad. of Pol. & Soc. Sc., July, 1913, (vol. 48).

CHAPTER II—QUESTIONS

1. Make a list of everything that you eat for one day and place opposite each item its probable source, *e. g.*, coffee, Brazil; sugar, Cuba, etc. The state that leads in production or, if the article is imported, the foreign country that leads in exports to the United States may be taken as the probable source.
2. Is our railroad system adequate to our needs? What suggestions can you make for the improving the methods of handling freight.
3. How can the terminal facilities in our large cities be improved?
4. What is meant by a car shortage? Can a car shortage be prevented? If so, how?
5. Why is our system of handling foodstuffs so expensive?
6. What has refrigeration meant to our cities? To our farmers? What does it mean to you?
7. What are the essential principles of the proposed central wholesale markets? Enumerate advantages and disadvantages.
8. If you live in a city, would the establishment of a central wholesale market for foods be practical in your city? If so, what would be its advantages? If not, why?

   If you live in the country, how would the establishment of such markets in the cities help or injure your community?

Chapter III

TRADE CHANNELS

Under the present system of market distribution merchandise ordinarily passes through the hands of one or more middlemen between the producer and the consumer. The various middlemen who handle an article between the producer and the consumer constitute the trade channel or route. Different articles of merchandise are marketed in different ways, or pass through different trade channels, while the method of marketing any article changes from time to time.

Producer direct to consumer.—The shortest trade channel is followed when goods pass direct from the producer to the consumer.

Producer - - - - } Consumer

In a primitive society this method is in common use, the different members of the tribe of village exchanging directly the products of the soil, of the chase, or of the craftsman's art. In the early part of the handicraft stage in England the consumers either visited the shops of the producers or the producers hunted up the consumers. It was, however, more economical to have one man market the goods

of many producers than to have each producer leave his loom or bench long enough to find buyers for his wares. With the increase in quantity of manufactured goods, the localization of industry, and the development of large scale production the number of middlemen greatly increased. In spite of this fact many articles still pass directly from producer to consumer. In small towns and villages the farmers often sell their fruits and vegetables direct to the consumers. This is done to a limited extent upon the public market even in the larger cities. In the smaller cities the dairymen often operate the milk wagons and sell their milk and butter direct to the consumers. Many factories market their output by mail direct to the consumers. This policy ordinarily involves heavy advertising expenses. It appears that direct selling is sometimes as expensive as selling through middlemen but many manufacturers have adopted direct selling because they have failed to secure a satisfactory volume of business through the middlemen. It is not improbable that in a small city one distributor could deliver the milk more cheaply than is done when each dairyman operates his own wagon.

Many manufacturers buy their supplies direct from the producers. For example machine and automobile manufacturers very often buy their steel direct from the steel mills. Factories often dispose of their product to the consumers through salesmen. The salesman may be a canvasser who solicits business from house to house or he may be a salesman solic-

iting orders for large machines such as dynamos, or threshing machines. The salaries and expenses, or commissions, of such salesmen are an expense of marketing but technically such salesmen are not middlemen.

Another example of goods being sold direct to the consumers by the producers is furnished by the ice manufacturers who often place the ice in the domestic refrigerators.

Some manufacturers have their own retail stores and sell to the consumers through them. Such stores involve all the problems of retail store management. Such stores are limited in number and although owned by the manufacturers should preferably be considered as separate middlemen.

One middleman.—The next shortest trade channel is followed when the goods pass through the hands of one middleman between the producer or consumer.

Producer - - - - } Middleman - - - - } Consumer

This is the channel which many goods follow today. Many factories supply their goods direct to the retail dealers. This is often done with shoes and clothing. Chain stores and department stores often buy goods direct from the producers. Milk often passes through the hands of only one middleman between the farmer and the city consumer. The same is sometimes true of coal. Mail order houses often

buy their goods direct from the factories and sell them to the consumer. The large mail order houses, however, are coming to manufacture a large part of their own goods.

Automobiles often pass through the hands of one middleman—the "agent," or "distributor." The same is true of oil and gasoline although in some cases gasoline is sold by the refiners direct to the consumers.

The manufacturer with a large or "full" line of goods will more often sell direct to the retailer than will the specialty manufacturer, who produces only a few items. The expense of a salesman handling many articles can be divided or spread among the several items while all the expense of salesmen handling only one article must be borne by this one article. In the latter case the expense may be so heavy that it is unprofitable to keep the salesman on the road. Thus a manufacturer of a full line of farm implements sells direct to the retailers through his branch houses, while the manufacturer of a single implement or class of implements sells through jobbers.

Two middlemen.—A very common trade channel is followed when the goods pass through the hands of two middlemen between the producer and the consumer.

This channel is often considered the most typical channel for the distribution of merchandise in the United States. The staple merchandise lines, groceries, hardware, drugs, and dry goods, are generally said to pass through the hands of wholesalers and retailers. As a matter of fact, such goods frequently pass through the hands of at least three middlemen between the manufacturer and the consumer. The chain and department stores, however, often eliminate one middleman, the wholesaler, and purchase their goods from the manufacturer through brokers or sales agents.

The large meat packers and farm implement manufacturers commonly have their own branch houses and sell to the retailers through these branches. Sometimes branch houses are owned outright and sometimes they are separately incorporated and controlled through stock ownership. Perhaps from a legal viewpoint a branch house owned directly by the manufacturer should not be considered as a separate middleman. Such branches, however, involve a separate capital outlay, a separate force of employees, and compete directly with independent wholesalers. As they perform the same economic function and incur similar expenses as the wholesalers we may ignore the ownership and consider such branches as separate middlemen. In districts where a manufacturer does not have his own branches he often sells through independent jobbers. This is done by the

meat packers and farm implement manufacturers. The latter often "job" their goods through other manufacturers' branch houses. Thus a manufacturer of tillage implements may handle a grain drill made by a second manufacturer, a wagon made by a third manufacturer and so on. A full line of implements is thus secured and as they are all handled by the same sales force the expense of handling each implement is reduced. It also enables the specialty or short line manufacturers, who cannot afford to maintain a large number of branches, to market their product. Shortline producers are sometimes forced out of business due to their inability to secure a satisfactory volume of sales from other manufacturers or from independent jobbers.

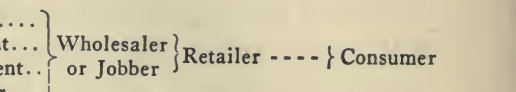
Farm products such as fruits, vegetables, and poultry products, are sometimes consigned[1] by the farmers to city commission men who sell them to the retail dealers. This is a common practice in some cities, for instance in Philadelphia, where a large quantity of New Jersey produce is handled in this way. The consignment business for the marketing of farm produce has, however, generally fallen into disrepute and is not now in general use.

Wholesale produce dealers at times send their buyers into the producing sections and buy produce from the growers, which they resell to the city re-

[1] Shipped by the owner to an agent to be sold on a commission basis; title to the goods remaining with the shipper until sold by the agent or commission man.

tailers. In this case the produce passes through the hands of two middlemen.

Three middlemen.—The next longer route is followed when the goods pass through the hands of three middlemen.



Very commonly merchandise such as staple groceries, dry goods, and hardware passes through the hands of a broker, selling agent, or buying agent, before it reaches the wholesaler. Canned foods, for example, are packed principally by small canners who cannot afford to maintain elaborate sales departments. The same is true of many grocery specialties. For this reason they commonly employ brokers to market their goods or turn their entire output over to a sales agent to sell for them on a commission basis. The brokers or sales agents sell to the wholesalers.

The wholesale hardware dealers handle thousands of different articles made by hundreds of different manufacturers. It would be a difficult task for them to keep in close touch with each of these manufacturers and to follow the daily price fluctuations for each article. For this reason the wholesalers often employ buying agents to purchase their supplies. These agents represent several wholesalers and it is

their business to keep in close touch with the manufacturers and with market prices.

The textile mills are largely occupied with production. Many of these mills are small or specialize in a few kinds of cloth. For these reasons they often turn the marketing of their cloth over to sales agents or brokers. In the woolen industry the selling or commission houses, which really control the mills, and the selling agents, who are financed by the mills, market most of the cloth.[2]

Farm products are often bought from the farmers by local buyers and resold by them to the city wholesalers. These local buyers may be local storekeepers, independent local buyers, producers cooperative selling organizations, or special buyers from the outside. If the local buyers are employed by the wholesaler who sells the retailer there would only be two middlemen between producer and consumer but in some markets the wholesaler (or car lot dealer) sells to the jobber, who sells to the retailer. In this case the produce passes through the hands of three middlemen before reaching the consumer. If, however, the wholesaler bought from an inpendent local buyer the produce would pass through the hands of four middlemen.

Four middlemen.—A still longer trade channel is found when the goods pass through the hands of four middlemen between the producer and the consumer.

[2] Cherington, Paul T.: the "Wool Industry," ch. 7.

Producer	Sales Agent....Broker.....Wholesaler	Retailer
	Local Buyer....Broker.....Jobber	
	Local Buyer....Wholesaler....Jobber	
	Importer .....Broker.....Wholesaler	
	Local Shipper...Auction.....Wholesaler	

Many manufacturers of groceries and dry goods have their products marketed by sales agents. These agents often do not maintain organizations in other cities and depend on brokers to place the goods with the wholesaler.

The local buyers of farm produce often effect sales through brokers who are in touch with the wholesalers. In some city markets such produce passes through the hands of two middlemen before reaching the retailers—the car lot receiver or wholesaler, and the jobber.

Fruits (especially citrus fruits, grapes and boxed apples) are sold at auction in many cities. The growers' association ship such goods to a local agent, or to their own salaried representative, who has them sold at auction. The buyers are, as a rule, wholesale dealers for the reason that the minimum quantity sold is generally too large for a single retail dealer to handle. This makes four middlemen-growers selling association, auction, wholesaler, and retailer. Wholesalers (or car lot dealers) also frequently have the auction sell such of their fruits as it handles. The auction is not the owner of the goods and acts as agent for the representative of the grower's associations or for the wholesale dealer. In either case the fruits passes through two hands between the local shipper and the

retailer, unless the retailer buys on the auction. (See Chapter VII for a fuller discussion of the operation of the auctions).

Imported goods.—Goods produced in one country and consumed in another often pass through the hands of more middlemen than if consumed in the country where produced. It is not, however, the purpose of this book to deal with marketing methods outside of the United States. Imported goods, after reaching this country, pass through channels similar to those followed by goods of domestic origin. Imported foodstuffs are often bought from importers by brokers in New York for wholesale dealers located in interior cities. Such goods then pass through the hands of four middlemen in the United States—the importer, the broker, the wholesaler, and the retailer.

Variation in Methods of Distribution.—The foregoing are some of the more common channels followed by goods on their way from the producers to the consumers. There are, however, a great many variations in the channels and very little uniformity exists in distributing the same article. For example 50 per cent of the shoes are sold direct to the retailers by the manufacturers, 42 per cent are sold to wholesalers and jobbers, 2 per cent are sold direct to the consumers, and over 5 per cent are sold through stores owned and operated by the manufacturers.[3]

[3] Federal Trade Commission: "Report on Leather and Shoe Industries," p. 167.

The same manufacturer may in some sections of the country sell direct to the retailers while in other sections of the country they sell through wholesale dealers. Other manufacturers may sell to both jobbers and retailers, some sales being made directly and others through brokers. Some manufacturers claim to sell only to jobbers and yet sell the large chain and department stores on the ground that such stores buy in large enough quantities to deserve the wholesale price. Some manufacturers adopt a policy of marketing their goods through a certain channel and adhere rigidly to this policy. Many others, however, do not adhere rigidly to any one channel and sell to anyone who will buy in sufficiently large quantities. In other words the large buyer can often force the sellers to accord him a jobbers status regardless of the nature of his business. Perhaps this is as it should be and quantity alone should determine the status of the buyer. There are, however, many who take the opposite view, and argue that a large retail dealer should not be given any better price than the small retail dealer. The merits of this contention will not be discussed at this point.

A good illustration of the variations in the methods of distribution is furnished by a mail order house, which manufactures a great many of its own goods, buys other goods directly from the producers, others through brokers or sales agents, and still others from wholesale dealers.

Longer trade channels.—Goods often pass through the hands of more middlemen than indicated by the foregoing outline. For example a shipment of Oklahoma eggs sold for a consumption in New York passed through the hands of three middlemen in Oklahoma—a local buyer, a country shipper, and a car lot shipper—and four middlemen in New York —a broker, a car lot dealer, a jobber, and a retailer.[4] The same result is caused by sales within the same stage of distribution; that is sales which do not bring the goods any nearer to the consumers. Such sales may be purely speculative or they may be necessary and legitimate. During the past few years many instances have been cited of the sale and resale of the same article for purely speculative purposes, for example, a car of produce being sold a half dozen or a dozen times without being unloaded. Witness the speculation in silk, sugar, etc., during the spring of 1920. During the time the United States Foods Administration was functioning it tried to prevent such sales in foodstuffs and was to a large extent successful.

Necessity for sales in same stage of distribution.—There are many sales within the same stage of distribution which are necessary and legitimate. This can be made clear by an illustration. A wholesaler estimates that he will need 5,000 cases of peas to take

[4] A. B. Adams: "Marketing Perishable Farm Products," "Columbia University Studies in History, Economics and Public Law," Vol. 72, p. 401.

care of the season's trade. He therefore contracts for this quantity through a broker. Toward the end of the season he finds that he has sold fewer peas than he expected and that he has a surplus of 1,000 cases in stock. He therefore notifies a broker to sell these for him. The broker may find another wholesaler who is short of peas and makes the sale. In this case the peas have passed through the hands of two wholesalers and two brokers before reaching the retailer. This shows why sales within the same stage of production are sometimes necessary. In actual practice it is very difficult to distinguish between mistakes in forecasting sales and speculation. If the wholesaler really thought his trade would take 5,000 cases it was an error of judgment or a change in demand. If on the other hand, he bought more than he expected to sell to the retailers because of an expected advance in price, it was a case of speculation.

Sale of raw and semi-finished goods.—What has been said so far in this chapter refers to the marketing goods after they are in the final form for sale to the consumers. Raw or partly finished materials may pass through the hands of several different parties before reaching the completed stage. Lumber may pass through several hands before reaching the furniture manufacturer, while cotton commonly passes through the hands of several dealers and manufacturers before being made into clothing. In the steel industry many of the larger companies are completely integrated, owning the ore, fuel, and limestone for

the manufacture of iron and the necessary equipment for turning out finished and semi-finished steel products. But the bars, sheets, or rounds must be sold to other companies for the manufacture of tools, machinery or automobiles. The manufacturers of such products may buy directly from the steel mills or may obtain their goods through brokers or jobbers. A considerable part of the marketing machinery of the country is engaged in the marketing of raw or semi-finished materials. The cost of materials to the manufacturer of the finished product is thus to a considerable extent made up of the selling expenses, and profits of previous manufacturers and dealers. This emphasizes the large part that marketing expenses play in the final cost of goods to the consumers.

This book will deal primarily with the marketing of goods which are ready for consumption—manufactured goods or farm produce. It should be pointed out that marketing activity may work toward one of two ends. First drawing together into a central market goods produced in small quantities by a large number of producers, e. g. eggs, wool, tobacco, cotton, wheat, cheese, lumber, and cattle. Such articles are generally the product of farms, but there are some which have undergone relatively simple manufacturing processes by small factories located near the raw materials—for example; cheese, butter, lumber, leather, etc.

This concentration process may be illustrated by the following diagram:

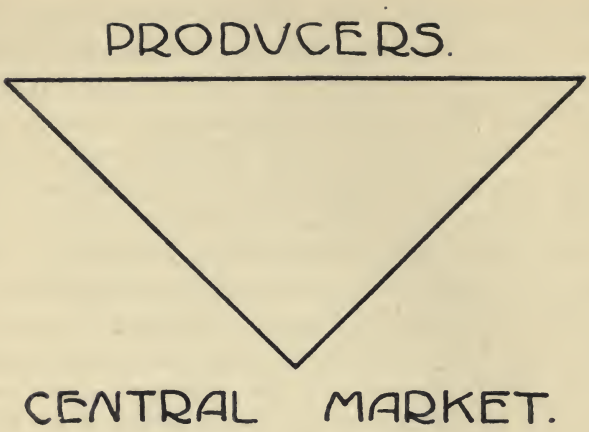


CHART III.

In the second place marketing activity may be directed toward distributing goods from a common point of production, or a central market, to a large number of consumers. A given manufacturer may distribute his product to millions of consumers through thousands of dealers in all parts of the United States. Thus Proctor & Gamble sell their ivory soap through 250,000 or 300,000 retailers.[5] This distribution process may be illustrated by the following diagram:

[5] Frederick J. George: "Modern Sales Management," p. 70.

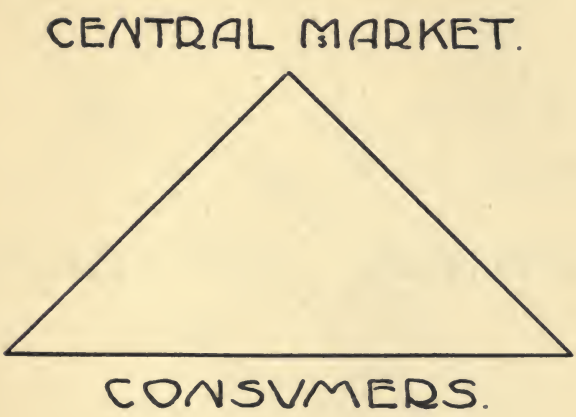


CHART IV.

In case the manufacturer controls his own source of raw materials or buys them in bulk from a very few producers this chart represents the entire process of market distribution. If, however, the raw material comes from widely scattered sources both sets of marketing activities are necessary to supply the consumers. The diagram then resembles an hour glass.

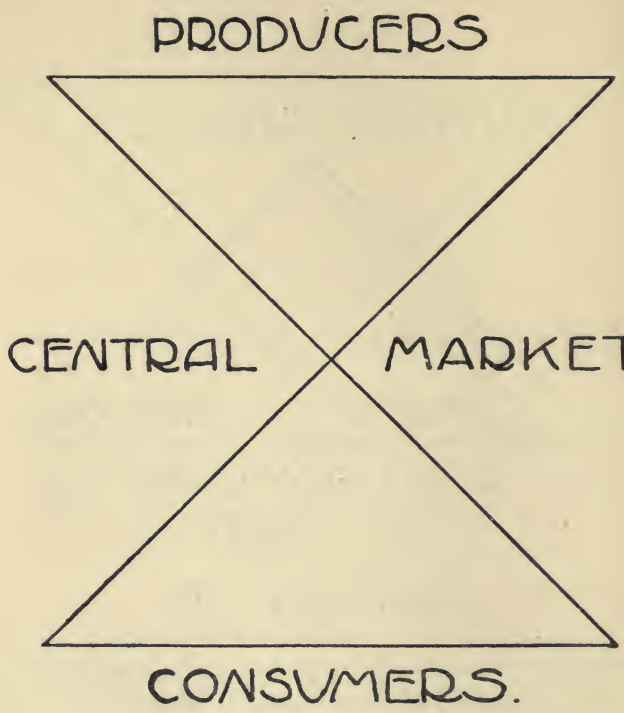


CHART V.

The method of marketing manufactured products through the middlemen may be further illustrated by the following diagram:

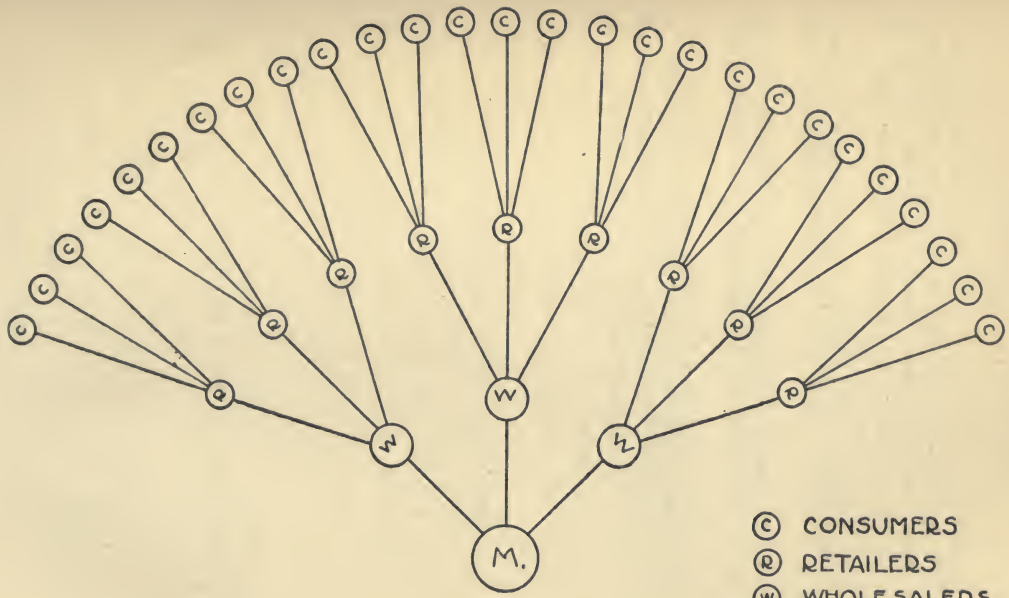

C CONSUMERS
R RETAILERS
W WHOLESALERS
M MANUFACTURER
M.
W
W
R
C

CHART VI.

CHAPTER III—QUESTIONS

1. Why are middlemen necessary? Why does American merchandise pass through more middlemen today than a century ago?
2. Why do eggs pass through more hands than shoes? Would this be true if we included the middlemen handling the hides and leather of which shoes are made?
3. Why do the canners employ brokers to sell to the wholesale grocers? Why do the hardware jobbers employ purchasing agents?
4. What are the common trade channels for the following: Automobiles, ice, milk, canned peas, hardware, plows, dry goods, fresh fruits?
5. Should manufacturers' branch wholesale houses, and retail stores be listed as separate middlemen? Why or why not?
6. Why are sales within the same stage of distribution sometimes necessary? When are such sales purely speculative?

Chapter IV

BROKERS AND SALES AGENTS

DEFINITION OF BROKERS, SALES AGENTS, AND COMMISSION MERCHANTS

Broker.—An agent is one authorized to represent and act for another, "brokers are agents whose regular business is to make contracts without having possession of the goods or to negotiate for the purchase of property or for loans or for insurance and the like."[1]

A broker is then an agent who specializes in selling or buying for his principal without actually having possession of or title to the goods, and who receives his compensation in the form of a commission, a percentage of value, or a flat rate per unit of property bought or sold. A broker's function is to make contracts for the purchase or sale of property or to bring buyers and sellers together and his commission is ordinarily earned as soon as a sale is made regardless of whether the goods are ever delivered or not.

Sales agent.—A sales agent is one who has the right to make sales for his principal and generally has much fuller powers than the ordinary broker. A sales agent very often has the exclusive right to

[1] Huffcutt: "Elements of Business Law," p. 230.

dispose of the entire product of his principal or the right to handle all of the product sold in a certain specified territory, as for example New York, New Jersey, and Pennsylvania.

The work performed by sales agents differs in different trades. The Federal Trade Commission has defined a sales agent as follows for the canned salmon industry: "A sales agent is a broker who has the right to sell all or a specified part of a canner's output, or to dispose of all of it except the portion sold to certain persons or in specified places.[2] This is practically the same definition as given by Copeland for a selling house in the textile trade. In the canned foods markets a broker will very often do a general brokerage business and at the same time act as sales agent for one or more canners. In this case, the broker acting as sales agent does not ordinarily have a national organization and so effects sales in all territories, except that near his office, through other brokers.

The product of many textile mills has been marketed by so called selling houses. These houses are really sales agents who either control or finance the mills. The distinction between the selling house and the selling agent in the woolen industry is stated by Cherington[3] as follows: "Briefly the distinction between the two is that the agency usually is financed by the mill and performs the selling operations on an

[2] Federal Trade Commission: "Report on Canned Foods, Canned Salmon," p. 22.

[3] Cherington, Paul T.: "The Wool Industry," p. 121.

agency basis rather than as a regular commission house." There has been a marked tendency in the textile trade in recent years to eliminate the selling houses and substitute selling agents, or brokers, or for the mills to sell the wholesale trade direct.

Commission merchants.—A commission merchant is one who receives goods belonging to another for sale, who has control of the goods, and when the goods are sold he must account to the owner for the proceeds of the sale. A commission merchant is sometimes called a factor.

The work of a broker at times closely resembles that of a commission merchant. Both sell goods belonging to others for a commission. There is, however, at least in theory, a clear distinction. The broker effects sales of goods which he does not have in his possession and which he does not represent himself as owning. On the other hand the commission man has the goods in his possession, makes delivery to the buyer, and the buyer may not know that the goods are not the property of the commission merchant. The broker is paid a commission by his principal while the commission man collects for the goods, deducts his commission and any expense and remits the balance to the owner with an "account sales."

This distinction is clear in theory but is not always so in actual practice. The broker may have the goods in his possession and may make deliveries to the buyers. The broker may also make collections for

his principal and adjust disputes with the buyers. He may also receive goods for sale on consignment. These are, however, extra or special services which brokers may at times render in order to secure satisfied principals and are not included in a strictly brokerage business. In performing these services he is in reality acting as a commission man, or factor, rather than a broker.

Merchandising brokers.—Many brokers in addition to selling goods for others buy and sell goods on their own account. This latter is a merchandising and not a brokerage function. Brokers who engage in merchandising have been called merchandising brokers.[4] Many brokers do little or no merchandising, while others have come to do largely a merchandising business. In such cases it would appear that they should be considered as wholesale dealers conducting a brokerage business "on the side."

Overlapping of activities.—It must be remembered that men engage in business to make money and not to conform their activities to any theoretically defined field. If a man enters the brokerage business and finds an opportunity to profitably handle some goods on consignment he may be expected to handle them. If he finds that he must render extra services in order to satisfy his principals or clients he may be expected to perform the services and if he sees an opportunity to make money by purchasing goods on

[4] Brokers handling merchandise as contrasted with stocks and bonds are sometimes called merchandies brokers. The terms merchandising and merchandise should not be confused.

his own account he will be likely to do so if he can obtain the necessary capital. It is well to remember this in the study of any given type of middlemen. Their actual operations may not conform exactly to the definition laid down for their particular business.

BUYING BROKERS AND AGENTS

In some trades the buyers employ buying or purchasing agents to keep in close touch with market conditions and to make purchases for them. Such agents may only negotiate contracts for the purchase of goods or they may inspect, receive and store the goods for shipments to their principals. They may be paid on a commission basis or receive a flat sum as so much per month, the amount depending upon the services rendered. Such buying agents are often used in the purchase of hardware, dry goods, and women's ready to wear clothing. These goods are manufactured to a large extent by small specialty producers who are unable to keep in close touch with all of the buyers and as the producers are so numerous the buyers are unable to keep in constant touch with them. For this reason the buyers located outside of the producing centers find it advantageous to employ buying agents who are in close touch with the sources of supply and with actual market prices, and who can buy the desired goods quickly and on advantageous terms. They may be able at times to secure quantity discounts which would be beyond the reach of the individual buyer,—wholesaler, department store, or

chain store. Some hardware jobbers purchase a considerable part of their goods through such purchasing agencies in order to get the special discounts which such agencies are in a position to secure, while others employ such agencies principally to ascertain the actual prices at which goods can be purchased but buy nearly all of their goods themselves. The quantity discounts passed on by the purchasing agency may be very important to the small jobber, while the large jobbers may be in a position to obtain such discounts on their own purchases.

In the speculative exchanges there must of course be as many buying as selling brokers. Buying brokers are also common in the purchase of fruits, vegetables and imported groceries. Jobbers in small cities are often unable to keep in daily touch with the large produce markets and so employ brokers to purchase a goodly part of their merchandise. Small buyers even in the larger cities sometimes employ brokers to purchase fruits for them on the fruit auctions. The use of such brokers saves the smaller buyers the time necessary to sit through the daily sales. In fact many such dealers can not afford the time to attend the auction sales and without such brokers would be forced to buy from the wholesale dealers who purchase the fruit at auction. This practice also lessens the number of buyers and hence the competition on the auction and so has a tendency toward lower prices. Wholesalers in interior cities sometimes employ brokers in New York to buy imported goods for them.

The general method of operation followed by buying brokers or agents is not fundamentally different from that followed by selling brokers and agents. Their activities will not be separately considered in this chapter.

FUNCTIONS OF BROKERS AND SALES AGENTS

Specialized independent salesmen.—Brokers and sales agents are specialized independent salesmen. They take the place of salesmen employed directly by the seller of the goods. Their success depends upon their ability to successfully negotiate sales and to keep their principals satisfied. As a rule they confine their activities to one line of merchandise or to a very small class of articles. They thus may become experts in the marketing of these lines and know very intimately the supply of and demand for the articles handled.

They are especially valuable in reaching wholesale dealers located in small towns and to small producers who, due to their size, would find the maintenance of their own selling organizations very expensive. A small manufacturer may turn the marketing of his entire product over to a sales agent. The manufacturer may know little about marketing and his entire time, energy, and capital may be needed in production. The sales agent may furnish the most economical method by which a small manufacturer can market his product. Perhaps he pays the sales agent five per cent while the expense of maintaining his

own sales department might be much higher. Dissatisfaction with such agents appears to come from their failure to turn in orders to keep up with the increasing capacity of the factories more frequently than from the rate of commission charged. As the business grows there is a tendency to do away with sales agents and sell through several brokers. The use of brokers is adapted to producers who are in a position to exercise a general supervision over the marketing of their product but who are not in position to keep their own salesmen in constant touch with the buyers in the different markets. Many large producers who have their own salesmen often employ brokers so that they will always have a representative in every important market. Even manufacturers selling to the retail trade may employ brokers to dispose of any surplus goods.

Giving information.—A very important service performed by the brokers is the giving of market information and advice to their principals. The brokers are in daily and hourly touch with price fluctuations, they should be acquainted with the supply and demand of each article handled, and should be able to judge of the future trend of prices with some degree of accuracy. Their advice to their principals as to when to sell and what price to accept is sometimes very valuable. Many producers say that they could dispense with the selling services performed by the brokers but that the information and advice given by the brokers alone justify the commissions paid to them.

Financing principals.--Another function very commonly performed by sales agents, and to a less extent by brokers, is the financial aid extended to their principals. It may at first appear anomalous for an agent to finance his principal but nevertheless this is exactly what often happens. The financial aid may take the form of direct loans, the endorsement of the principal's notes, the advancement of money against the shipment or storage of goods, the guaranteeing of accounts resulting from the sale of goods, or the supplying of permanent capital.

In the textile trades the selling houses dispose of the product of the mills, and frequently endorse their notes, guarantee their accounts, or directly advance them money. The charge for selling the cloth may be one to two per cent, the charge for endorsing the mill's notes is one to two and a half per cent, and the charges for guaranteeing the mill's accounts are from two to two and a half per cent. Many of the small southern cotton mills whose credit has not been well established have been forced to pay three and a half to four per cent for the services of the selling house in the sale of their goods and the endorsement of their notes. As the mills become larger and their credit becomes better they can borrow directly from the banks. The larger mills are also able to keep in close touch with the cloth market. They then tend to break away from the selling houses and sell through brokers whose commission is much less, perhaps only one-half of one per cent, or to establish

their own selling offices. The selling house in order to keep its business may purchase a controlling interest in the mills.[5]

Other services performed by the brokers may involve the collection of accounts, the making of adjustments in the case of disputes, of accepting goods for sale on consignment, and the handling of goods and making delivery to the buyers. A typical example of the latter is the handling of pooled cars. A pooled car contains small shipments for different buyers forwarded to one consignee to get advantage of the car load freight rate. The broker may act as the consignee, have the car opened and see that the goods are delivered to the proper parties. In looking after the interests of his principals the brokers may be called upon to render a variety of services which are not in the strict legal sense, a part of the brokerage business.

OPERATIONS OF BROKERS AND SALES AGENTS

Organization.—Brokers and sales agents may operate as individuals, as partnerships, or as corporations. The size of their organization depends upon the size and nature of the business transacted. Often a broker conducts a strictly one man business with no place of business except a desk in someone else's office or in his home. Has "his office in his hat" is the

[5] Copeland, Melvin T.: "The Cotton Manufacturing Industry of the United States," p. 216, and Cherington, Paul T.: "The Wool Industry," pp. 117-127.

trade expression. If the business is larger the broker may have a single room for an office and employ a stenographer and bookkeeper. As the business increases the organization expands accordingly until we find the large brokerage houses with suites of offices, ample show rooms, and numerous salesmen, bookkeepers, and stenographers.[6]

Little capital required.—To conduct a strictly brokerage business requires very little capital. All that is needed is enough working capital to pay rent, salaries and miscellaneous expenses until sales are negotiated, deliveries made, and commissions collected. This time varies from a few days to several months according to the commodity handled. It is often said, however, that to successfully conduct a brokerage business one must have either a considerable amount of capital or credit as it is often necessary to finance certain shipments of goods—e. g. remit to the seller before collection is made. If the broker engages in the merchandising business a much larger capital is needed, but the amount needed is often much less than would appear at first glance for the reason that the goods are often stored in public warehouses and almost their full value borrowed on the warehouse receipts.

Selling ability necessary to success.—The success of a broker depends upon his ability to secure goods for sale and make sales which are satisfactory to his

[6] The single building at 100 Hudson Street, New York City, houses a veritable colony of brokers handling various kinds of groceries.

principals. Good connections with the buyers is one of his most valuable assets. Personality plays a large part in making sales, especially in the sale of standard articles where there is little variation in price, and it is in the sale of such articles that brokers are frequently found. As very little capital is required to enter the business and as the profits of successful brokers are very large, competition is generally keen. A broker with a wide personal acquaintance among the buyers, however, has a distinct advantage over the broker whose acquaintance with the buyers is limited. A man with well established relations with a few large buyers may be able to sell more goods in a morning than a new salesman can in a week. The sellers want to secure the best representation for their goods and so try to select as their representative the broker with the best connections and the most selling ability. This makes it difficult for new or unknown brokers to enter the field as no selling broker can succeed unless he has goods to offer. This difficulty is, however, mitigated by the fact that where there is no exclusive agency a seller may be willing to accept satisfactory sales for his goods negotiated by any reliable broker. Brokers trying to establish themselves at times split their commission with the buyer or other brokers in order to make sales. For example if their commission is two per cent they may give one per cent to the buyer as an extra inducement to buy. This extra one per cent may be all that is needed to make the sale. The seller may get his quoted

prices or the broker may induce him to give the buyer a discount of one per cent. Old established brokerage houses often regard such a practice as "unfair" and opposed to trade ethics. It is, however, hard to completely condemn such a practice, for without it it would be more difficult for a new broker to establish himself in business.

Must know supply and demand.—In addition to sales ability a successful broker should be thoroughly conversant at all times with the supply and demand in his market. Brokers often keep in very close touch with the needs of the buyers. Stories have been told of the broker knowing more about the stocks of goods in the hands of the buyers than they themselves did.

Prices.—A broker is supposed to represent the interests of his principal. If a broker represents a seller he is supposed to watch out for the seller's interests and make the most favorable sales possible for him. It is thus the duty of the broker to get the highest possible price for the goods sold. As a matter of fact, however, a broker is often more interested in making a sale than in holding out for the highest price. For example, suppose a broker working on a two per cent commission is trying to close a sale for 1,000 units of an article selling for $1.90 to $2.00. If the sale is made at $2.00 his commission will be $40 and if the sale is made at $1.90 his commission will be $38. or only $2. less. The broker very naturally does not wish to run the chance of losing the sale for the sake of the $2.00 commission

and hence may advise his principal to sell at $1.90. From this example it can be seen that a broker's interest is to make sales and a slight difference in the selling price means very little to him. From this it is plain that the broker's interest is not always identical with that of his principal.

Canners often suspicious of brokers.—Among the vegetable canners there has been a somewhat widespread feeling that the brokers have not always fully represented their interests. It has been charged that some brokers have tried to reduce the canners' price quotations by sending them misleading market reports. For example, a broker might report the price of one certain sale as the prevailing market price, while as a matter of fact the goods involved in the sale may have been of poor quality or the sale may have been made on special terms which the brokers failed to mention. The broker in this way hoped to get his principals to reduce their prices so that he could undersell other brokers and increase his business. If several brokers tried this scheme they might lower the prevailing price considerably. Some of the canners associations have taken steps to stop such practices. When such a case of underquoting the market has been detected, the facts and the name of the broker have at times been sent to all members of the association. As no broker can afford to be singled out as an enemy to the canners this was a very effective way of checking this practice.[7]

[7] See Report of Federal Trade Commission on "Canned Foods, Fruits and Vegetables," 1918, p. 80.

Authority in fixing prices.—A seller may give his broker the right to fix selling prices or may limit him to sales made at prices fixed by himself. The prices of many commodities are constantly fluctuating and it is very difficult for the principal, especially if he is located outside a large market, to keep the broker constantly advised of what he considers a fair price. In such cases the broker may be instructed to go ahead and solicit orders but to submit all offers to the owner of the goods for approval. This involves a considerable loss of time, especially if the buyer is located in an out of the way community, and sales may be lost due to inability of the broker to close the sale immediately. To overcome this difficulty the broker may make sales "subject to confirmation of price" by the owner of the goods. Such sales become binding contracts as soon as the owner confirms the price. If the price fairly represents the market and the broker regularly represents the owners of the goods such sales are ordinarily confirmed as a matter of course. In other cases the broker may have full authority to complete the contract for the sale of the goods as long as the price is within certain limits named by the seller.

The owner of goods may give the broker a free hand in fixing the selling prices. This practice is, however, much more common with sales agents than with brokers. Sales agents have greater powers than brokers, receive larger commissions, and have larger interests in the success of the producers represented. The smaller manufacturers, who are as a rule the

ones who employ sales agents, are the very ones who are unable to keep in close touch with market conditions. For this reason they often give their sales agents almost full authority in the marketing of their product.

Tend to lower price.—The question may be asked as to what effect the brokers have on prices. From what has been said it would appear that they tend to lower rather than raise prices. This is apparently borne out by the fact that in the grocery markets the wholesalers as a rule feel very friendly toward the brokers and believe that they serve a very useful function while many of the manufacturers are skeptical of their value and use them from necessity rather than choice.

The Federal Trade Commission in its investigation of the canned salmon industry found that during 1917 the median (average) price received by the Pacific Coast brokers was eleven cents higher on the goods handled on a merchandising basis than on the goods handled on a brokerage basis. In the eastern portion of the country the median price was twenty-six cents higher on their own goods than on goods owned by others and sold on a brokerage basis. The Commission also found that the canned foods brokers made much larger profits on merchandising than on brokerage sales. In 1916 reports from eight brokers showed that seven of them realized from 1.8 to 20.7 per cent more profit on their merchandising than on their brokerage business. In eight months of 1917 the merchandising profits of

the three brokers covered by the report exceeded their brokerage profits by the following percentages: 3.0, 7.3, and 16.8.[8]

These facts certainly indicate that the brokers do not generally secure as high a price for goods sold for others as they do for their own goods. In other words goods handled on a commission basis are sold for less than could be obtained for the same goods if they were owned by the brokers. These reports, however, cover periods of rising prices, whether similar profits would be made during a period of stationary or falling prices is an entirely different matter. During such periods the brokers likely make relatively small profits on their merchandising business and so limit such transactions.

Brokerage contracts.—The principal may make a written contract with his brokers or sales agents specifying the powers and duties of the brokers or sales agents, the rates of commission to be paid, and territory covered if exclusive territories are assigned. Very commonly, however, no formal contract is made, the broker acting under either a verbal agreement or under conditions outlined in letters between the two. Such agreements are generally made in accordance with the common practices within the trade and if a dispute arises over a point not specifically covered by the agreement it is settled in accordance with the prevailing trade customs and practices. Such customs and practices are generally

[8] Federal Trade Commission, Canned Foods: "Canned Salmon; p. 56 (see also p. 67); "Fruits and Vegetables," p. 50.

well understood by the men engaged in many trades, and for this reason it is often felt that nothing is gained by signing an elaborate, formal, written contract.

NUMBER OF BROKERS

Articles sold.—It would be extremely difficult to enumerate all of the different commodities sold by brokers or to approximate the total number in the United States. They seem to sell everything from commercial paper to ships. They are common in the sale of real estate, stocks and bonds, commercial paper, cargo space on vessels, insurance, foreign exchange, grains, fruits, vegetables, butter, eggs, cheese, hay, cotton, canned goods, groceries, textiles, coal, steel, coffee, chemicals, and many other articles.

The activities of brokers apparently center in two classes of articles. First those articles produced by a large number of small producers who are not in a position to keep in touch with the markets and sell direct to the wholesaler and retail dealers. In this class are fruits, vegetables, canned goods, textiles, and coal. Second, articles not adapted to sale by the common trade channels due either to their bulk or to the limited number of buyers. Real estate cannot be moved and coal is too bulky to be moved oftener than is absolutely necessary. The number of buyers for insurance policies, foreign drafts, and steel billets is limited and highly specialized salesmen are needed for their sale. The

brokers dealing in articles falling in the second group are experts in that they are thoroughly familiar with small highly specialized markets. These brokers furnish an excellent example of middlemen highly specialized as to function and carrying on their operations for a very low rate of commission. Freight forwarders may be regarded as performing a specialized function in attending to the details of making export shipments, but they may engage the necessary cargo space through freight brokers; place the marine insurance through insurance brokers, sell the drafts through foreign exchange brokers; and arrange with custom house "brokers" to attend to the details and red tape of getting the goods through the custom houses. They often find it cheaper to employ such brokers than to attend to the detail of all these operations themselves.

No accurate figures available.—No accurate figures are at hand showing the total number of brokers in the various trades. An accurate census is difficult to take due to the lack of uniformity in the definition of the term and to the fact that many persons styling themselves brokers do very little brokerage business while many persons and firms not called brokers do a considerable brokerage business.

The United States census for 1910 reports the following numbers: 24,009 commission brokers and commission men, 13,729 stock brokers, and 6,254 not specified brokers.

Number of brokers handling typical commodities.—Thomas' Grocery Register for 1919 lists be-

tween 3,600 and 3,700 brokers handling some of the various articles coming under the general head of "groceries." These lists, however, include the various branches of a single brokerage concern and also many brokers in small towns who do very little brokerage business and whose brokerage business is often a "side-line." About 700 of these brokers are members of the National Canned Foods and Dried Fruit Brokers Association.

There are said to be from 800 to 1,000 brokers in the country handling sugar. Copeland reported 39 cotton cloth brokers in New York City and stated that there were many others in such cities as Boston and Fall River.[9] Cherington [10] reports 280 selling agents or dry goods commission houses which handle woolens and worsteds in New York, Boston, Philadelphia and Chicago. Over 80 per cent of the canned salmon is marketed through sales agents and brokers. The various produce exchanges of the country have from 50 to 2,000 members each. Some of these may not be brokers, but they are on the other hand, brokers in these markets who are not members of the exchange.

RATES OF COMMISSION

Rates generally small.—The rate of commission charged by brokers generally varies from a small fraction of one per cent to five per cent. Higher

[9] Copeland, Melvin T.: "The Cotton Manufacturing Industry in the United States, 1912," p. 216.

[10] Cherington: "The Wool Industry," p. 125.

percentages are, however, not unknown. The commission paid to sales agents may go considerably higher than five per cent. The rate of commission paid for selling different articles is generally pretty well understood and fairly uniform in each market. The rate depends upon the value of the articles sold, the services rendered by the brokers, the amount of competition among the brokers, and the common practice in the past.

In the New York stock market the brokerage depends upon the price of the stock bought or sold, the rate varying from 7½ to 20 cents per share, according to the price. The common rate on bonds is ⅛ of one per cent of the par value.

Rates on Chicago board of trade.—The following are the minimum rates of commission on the Chicago Board of Trade.[11] On grain purchased outside of Chicago from non-members to be shipped to Chicago: wheat, ¾ of one per cent with ¾c. per bushel as minimum; corn and rye one per cent with ¾c. per bushel as the minimum; oats one per cent with ½c. per bushel as minimum. When purchases are made from members these rates are somewhat lower, as follows: wheat, ½ of one per cent with ½c. per bushel as minimum; corn and rye ¾ of one per cent with ½c. per bushel as minimum; oats ¾ of one percent with ⅜c. per bushel as minimum. These rates are to cover all incidental expenses incurred in handling and financing the purchase and do not

[11] In effect Feb., 15, 1918, quoted from constitution and by laws contained in annual report for 1917.

apply when transactions are not financed. Members in soliciting such business may employ "solicitors" at a fixed salary or other members as "brokers" at ⅛c. per bushel. As the members have such grain in their possession and as such grain may be consigned to them by country shippers this is a commission rather than a brokerage business.

Members may act as brokers and on strictly brokerage sales where no financing is done the minimum rates are much lower. The rates depend upon the nature of the transaction but the following are typical. For sale or purchase by *grade alone* for immediate or future delivery in store or in regular houses; wheat, corn or oats 10 cents per 1000 bushels in lots of 5000 bushels or over and 15 cents per 1000 bushels in lots of less than 5000 bushels; for rye, barley or flaxseed 25 cents per 1000 bushels; for pork 2-5c. per barrel; for short ribs and lard two cents per 1000 pounds. For purchase or sale by sample or by sample and grade for immediate or future delivery or "to arrive" or in car load lots in any position: wheat, flaxseed and ground feed $1.00 per car; hay, straw or clover, millet, timothy seeds $2.00 per car; ear corn $1.50 per car; seeds in less than car load lots, two cents per bag. For purchase or sale of grain C.I.F. for shipment by rail or water ⅛c. per bushel in lots of over 5000 bushels, and ¼c. per bushel in lots of less than 5000 bushels.

Rates on smaller exchanges.—The rates of commission vary somewhat on the various produce exchanges. The following rates adopted by the Grain

and Hay Exchange of Pittsburgh may be taken as typical of the rates on the smaller exchanges: wheat and rye one per cent with a minimum of 1½ cents per bushel; shelled corn and oats one per cent with a minimum of one cent per bushel; ear corn one per cent with minimum of two cents per bushel; barley two cents per bushel; hay five per cent with minimum of $1.00 per ton; straw five per cent with minimum of 75 cents per ton; bran, middlings and mill feed 5 per cent with maximum of $1.00 and a minimum of 75 cents per ton.[12] The rate on strictly brokerage business in Pittsburgh is from ¼ to ½ of one per cent.

Change from unit to percentages basis.—Before the war the prevailing rates on most of the grain exchanges were fixed in accordance with the number of units sold—a fraction of a cent per bushel. But with the increase in the price of the grains which called for more money to finance the transactions and with the increased operating expenses the rates have in many instances been placed on a percentage basis, with a minimum rate of so much per bushel to protect the broker in case of a fall in price. This movement to go from a flat rate per unit to a percentage basis has not been limited to the sale of grain. When brokerage rates are on a percentage basis an increase in the selling price of the goods automatically increases the amount of brokerage. The increase from this source during the war was

[12] *Pittsburgh Grain and Hay Market Reporter,* Aug. 6, 1920.

ample in most cases to cover the increased operating expenses of brokers. During a period of falling prices the brokerage received may decline more rapidly than operating expenses and may offset the extremely large profits made by many brokers during the period of rapidly rising prices.

Rates on canned foods.—The prevailing rates of brokerage for the sale of canned foods is two per cent on the selling price.[13] Although rates as low as ½ of one per cent and as high as 7 per cent have been reported. Sales agents ordinarily receive 5 per cent but rates as high as 10 and even 13½ per cent have been reported, while one large salmon canner pays only 4 per cent.[14]

Rates on insurance and ships.—Marine Insurance brokers are paid from 2½ to 5 per cent.[15] During the war, ship brokers were paid three quarters of one per cent but after demobilization and a fall in the price of ships this rate was raised to one and one quarter per cent.

Fertilizer brokers are paid from 10 cents per ton to 1½ per cent of net sales. One exclusive selling agent receives commission of from 2½ to 10 per cent.[16]

[13] The *Produce Reporter* for 1920 gives 2½ per cent as the customary rate.

[14] Federal Trade Commission: "Report on Canned Foods, Vegetables and Fruits, pp. 19 and 50; Canned Salmon, pp. 22-26.

[15] Hough: "Practical Exporting, 1919," p. 433.

[16] Federal Trade Commission: " Report on Fertilizer Industry," pp. 7 and 8.

Rates on cloth.—Cotton cloth brokers receive ½ of one per cent according to Copeland[17] but the Bureau of Foreign and Domestic Commerce[18] states that the brokers generally are paid 1½ per cent when selling cloth for export. Brokers buying cotton cloth for foreign importers receive from 2 to 5 per cent, 3½ per cent being a common rate. English brokers are usually paid one per cent when selling cotton cloth for export. The differences in these rates seem to depend upon the services rendered in different kinds of transactions.

Selling houses receive a high rate of commission, the rate charged the Southern Cotton Mills as reported by Copeland in 1911 was 3½ to 4 per cent. Cherington reports that there was no uniform rate for the sale of woolens but that 2 per cent is the prevailing rate for staple goods while the rate for seasonable or style goods may be as high as five per cent.[19]

Rates on foodstuffs.—In the sale of fruits, vegetables and dairy products the brokers are often paid on the basis of the number of units sold (or bought). The *Produce Reporter* for 1920 reports that rates vary so much that "it is inadvisable to say with any degree of certainty what should be paid in the absence of agreement as has been done previously" but reports the following as being the consensus of

[17] Cotton Manufacturing in the United States," p. 216.

[18] "Selling in Foreign Markets," pp. 514 and 516.

[19] Cherington, Paul T.: "The Wool Industry," p. 120.

opinion as to the customary rates: apples $15. car, 10c. barrel, 5c. box, and 5c. cwt. if in bulk; potatoes old $10. car, new $15. car; cantaloupes $25. car; hay and straw $5. car; watermelons $10. car; table grapes $25. car; etc. The common rates in the Pittsburgh market are ¼ to ½c. dozen on eggs; ¼c. pound on cheese; and ⅛ to ½c. pound on butter depending on the quantity sold.

The California Lima Bean Growers' Association pays its selling agents five per cent of the coast price but requires them to pay sub-brokerage of one per cent, and allow a cash discount of one per cent out of this amount.[20]

Rates on anthracite coal.—The brokerage actually earned by the anthracite coal sales agents is given by Mr. W. Jett Lauck, consulting economist for the United Mine Workers of America, as follows: All sizes of coal, 21c. per ton in 1914 and $1.62 per ton in 1920; chestnut coal, $1.19 per ton in 1914 and $3.29 per ton in 1920.[21]

Other examples of brokerage rates might be given but it is believed that the foregoing are sufficient to give a good idea of the prevailing rates of commission paid to brokers and sales agents for the sale of various commodities.

Reasonableness of rates.—It is difficult to make a general statement as to whether brokerage rates are reasonable or not. Relatively few figures are

[20] *Journal of Commerce,* October 11, 1919.

[21] *Journal of Commerce,* July 19, 1920.

available showing the actual operating expenses of various classes of brokers. It will be shown in the following section that the net profits of the well established brokers in some lines are very large. It must be remembered, however, that a part of these figures were gathered during a period of rising prices and that they do not include the small brokers who are just managing to make a living.

NET PROFIT OF BROKERS

The gross earnings of a broker depend upon his success in making sales or purchases. The prevailing rates of commission are ordinarily sufficient to allow the efficient brokers to pay expenses and make large profits. If a broker is successful his net profits are large. If he is unsuccessful his net profits are small. The field is highly competitive but success is generously rewarded.

Hard to get average figures.—It would be very hard if not impossible, to gather any figures that would reveal the average net earnings of the brokers in the various trades for the reason that there are so many small, irregular, or part time brokers. In the gathering of any figures these are likely to be overlooked and even if found many of them probably would be unable to make an accurate report of their earnings and expenses. Figures referring to the net earnings of brokers are liable to cover only the better established and more successful ones.

Return for personal services and for capital.—In the conduct of a pure brokerage business little capital is needed and the net profit is very largely a return for personal service. The capital invested is so small that a calculation of the percentage of net earnings on investment would be misleading if not entirely useless. If, however, a merchandising business is done or if many producers are financed, a considerable amount of capital is required, in which case the percentage of net profits earned upon the capital investment is very significant. As a matter of fact a broker often does some pure brokerage business, some merchandising business, and perhaps also finances or helps to finance, a certain number of producers or shipments. In this case the net profit is partly a return for personal services and partly a return upon capital. The apportionment of the net profits between personal services and capital would in many cases be extremely difficult and can only be done after a full consideration of all the facts in each case. As these facts are seldom available to an outsider such as apportionment is generally impossible.

Returns for personal services.—Perhaps the best way to obtain a fair idea of a broker's net earnings is to include interest upon the invested capital as an expense and to consider the remaining net earnings including salaries for the owners as a return for personal services. On the other hand the salaries of the owners can be eliminated from expenses and the percentage of total net profits upon capital computed.

The elimination of the salaries of the owners from "expense" is necessary in either case for the reason that many brokers consider the net profits as the returns for their personal services and so take the bulk of the net profits out of the business as salaries for themselves and not as dividends or "profits."

The Federal Trade Commission has published figures showing the net earnings of a large number of canned food brokers. These figures may be taken as representative of the net profits made by well established brokers in the grocery trade. After allowing six per cent interest upon the investment it was found that the average net earnings for the personal services of the active owners of thirteen canned salmon brokerage firms and eight general canned food brokerage firms during 1916 and 1917 were as follows:

	1916	1917
General Canned Food Brokers.....	$37,416	$62,263
Canned Salmon Brokers.....	48,133	64,634

The largest firms were not included in computing these averages and as most of the firms included had only one or two owners active in the business it is evident that they were handsomely rewarded for their services in both of these years.

Returns on capital.—The Trade Commission has also presented the percentages of net profit made by these brokers upon the invested capital. The salaries of the owners or officers, but not of employees, are included with the profits (eliminated from ex-

penses) for the reason explained above. The percentages of net profit were as follows:[22]

General Canned Food Brokers	*Per Cent. Net Profit On Investment*	
	1916	1917
Broker No. 1	119	174
" " 2	130	222
" " 3	114	130
" " 4	6	24
" " 5	275	652
" " 6	53	66
" " 7	272	520
" " 8	25	253
Average	101	148

Canned Salmon Brokers		
Broker No. 1	110	77
" " 2	21	34
" " 3	534	773
" " 4	31	90
" " 5	38	37
" " 6	29	44
" " 7	38	147
" " 8	218	170
" " 9	39	100
" " 10	148	93
" " 11	119	124
" " 12	20	18
" " 13	14	18
Average	43	54

[22] Federal Trade Commission: "Report on Canned Foods; Canned Salmon," 1918, pp. 64-67. Similar figures are given on p. 53 of the report on "Vegetables and Fruits" for another list of general canned food brokers. As many of these figures are incomplete for 1917 they are not reproduced here. The percentages of net profit on investment for 1916 were as follows: 211; 107; 41; 47; 78; 284; 321; 231; 57; 126; 69; 8; 47, and 35.

These percentages show the high average net profits of the canned foods brokers and the wide variation in the net profits made by different individuals or firms. The reader should, however, be again cautioned to bear in mind the fact that many brokers have very little investment for which reason some of these percentages have little significance. For example canned salmon broker No. 3 had an investment of only $7,306. Similarly general canned food broker number 5 had an investment of only $5,606. On the other hand canned calmon broker number 2 had an investment of $385,377 in 1916 and canned salmon broker number 5 had an investment of $306,-253 during 1917. The average investment of the canned foods brokers was $39,247 in 1916 and $43,-781 in 1917 and of the canned salmon brokers $112,459 in 1916 and $119,209 in 1917.

Earnings of Princeton graduates. — Figures of the average earnings of the class of 1901 of Princeton University, ten years after graduation, show that the brokers were by far the most prosperous group. The average salary of the brokers is given as $18,900. while the next highest average salary was $6,098 made by the manufacturers. These figures are inconclusive for the reason that the number of members of each group is not shown so that the average of any group may be seriously affected by one or two exceptional individuals.

The figures presented above may be insufficient to show large average net profits for brokers as a class but they are believed to be typical of the net

profits made by the successful and well established brokers in prosperous years.

CONCLUSION AS TO USEFULNESS OF BROKERS.

Economy of brokers.—The brokers serve a useful function in bringing buyers and sellers together and in negotiating sales without actually handling the goods. Ordinarily they sell in large quantities without having the expense of warehousing, delivering, etc., for which reasons they can operate very cheaply. It is economical in the distribution of goods to reduce the moving, storing and handling of goods to a minimum and it is apparently in the interest of efficiency to substitute middlemen acting on a brokerage basis for those acting on a merchandising basis wherever possible.

The development of brokers should be encouraged when they replace middlemen with higher operating costs. It is an entirely different matter when instead of acting as a substitute for less efficient distributors they act as middlemen between existing middlemen and so increase the number of middlemen between the producer and the consumer. Due to specialization of function an extra middleman may tend to decrease the total marketing expense but the author believes that in the majority of cases the effect is just the opposite—to increase in the total expense.

Merchandising business not justified.—It is hard to find any economic justification for the merchandising business done by the brokers. If the mer-

chandising broker replaces the wholesaler and sells the retail dealers direct then he is misnamed for he is a wholesaler and not a broker. In the marketing of some commodities the merchandising function may be necessary between the producer and wholesaler to adjust the supply of and demand for the commodity, e.g. to prevent buying and selling between the wholesalers. Such commodities are, however, the exception and not the rule. The author is convinced that the great bulk of the merchandising business done by the brokers (aside from the business done in their capacity of wholesale dealers) is purely speculative.

Encourage speculation. — A very serious criticism of the brokers is that they encourage speculative transactions. Brokers often do not stop to think whether the sales being made pass the commodity on toward the consumer or not. Perhaps, under the competitive system, they could not be expected to refuse to make sales or purchases because such sales or purchases did not get the commodity any closer to the consumer. Many brokers not only do not discourage speculative sales but actually encourage people to speculate in order to earn commissions on such transactions. Practically any article can be speculated in—potatoes, onions, tinned milk, sugar, butter, eggs, shoes, textiles, coal, steel, etc. There is a great difference of opinion among both business men and economists as to whether such speculation serves any good purpose or not. The public, however, unreservedly condemns such spec-

ulation as inimical to its interests. It is generally recognized by students of marketing that regulated speculation in standard graded commodities on large well organized exchanges, like the Chicago Board of Trade, serves many useful purposes. The speculation in graded commodities on organized exchanges, however, is one thing while the speculation in ungraded articles by private sales outside the regulations of organized exchanges is an entirely different thing. It is extremely doubtful whether the latter type of speculation serves any good purpose and much evidence tends to show that it is opposed to the interest of the public. This question of speculation is too big a subject, to be discussed fully in this chapter, but if it be admitted that purely speculative transactions are wrong, then many brokers must come in for a good deal of condemnation for not only being a party to but actually encouraging such transactions.

We then heartily endorse the regular work of the brokers in negotiating sales between the producers and the wholesale and retail dealers or between producers of different products, but we seriously question the desirability of their merchandising business and their business in effecting speculative sales.

BIBLIOGRAPHY

Federal Trade Commission: "Report on Canned Foods; Canned Salmon," chs. 1, 3, 4, 5, and 6; "Vegetables and Fruits," chs. 1, 3, 4, and 6; "Report on Fertilizer Industry," pp. 6-9.

Bureau of Foreign and Domestic Commerce: "Selling in Foreign Markets," parts of chs. 7 and 11.

Cherington, P. T.: "The Wool Industry," ch. 7.

Weld, L. H. D.: "The Marketing of Farm Products," chs. 5 and 6.
Copeland, Melvin T.: "The Cotton Manufacturing Industry in the United States," 1912, ch. 11.
Nourse, E. G.: "The Chicago Produce Market," 1917, ch. 3, also "Brokerage, 1910," ch. 1.
Alexander Hamilton Institute: "Marketing and Merchandising," part 1, ch. VII.

CHAPTER IV—QUESTIONS

1. Define or distinguish broker, sales agent, commission merchant, and factor. What is a merchandising broker?
2. What power does a broker generally have in fixing selling prices? Do the operations of brokers tend to raise or lower prices? Why?
3. Why does a broker sometimes handle goods? Collect accounts, and finance shippers? What is a pooled car? Why are pooled cars sometimes consigned to brokers?
4. What are common brokerage rates for the sale of canned vegetables? cotton cloth? butter? wheat? potatoes, and stocks?
5. Upon what does the success of a broker depend? What opportunity does the brokerage field offer the young man starting in business?
6. If you had a small tomato cannery in Maryland would you sell your product through brokers? Why or why not? If you employed brokers what authority would you give them in fixing selling prices? If you did not employ brokers, how would you dispose of your product? What would be the advantages of employing a sales agent as against the use of brokers?
7. A very large part of the grocers' specialties are marketed through brokers. A medium sized manufacturer of a breakfast cereal is dissatisfied with his volume of sales and asks your advice about selling the wholesale grocers direct? Would such a change be desirable? Would it likely increase his sales? Would it likely decrease the cost to the wholesaler? Discuss.
8. Suppose the above manufacturer decides to employ specialty salesmen to call upon the retailers? Would it be advisable to retain the brokers? Why or why not?

Chapter V

WHOLESALE DEALERS

Definitions.—A wholesaler may be defined as a dealer who buys in large quantities and sells generally in smaller quantities, to other dealers. There is no generally recognized distinction between the wholesaler and the jobber. Formerly the jobber was an irregular factor in the market who bought "job" or odd lots and sold them to wholesale dealers, or wherever he could sell them advantageously. This distinction is still made in the shoe trade. Perhaps he had no warehouse or regular place of business and acted as a "free lance" in the market. Later, however, he came to have a regular place of business and to do business on very much the same basis as the wholesaler and in many trades the names came to be used interchangeably. In such standard merchandise lines as groceries, hardware, drugs and dry goods there seems to be no distinction and the terms are now used interchangeably. The term "job lot" is, however, still common in the textile markets.

Grocers.—Thomas' Grocery Register distinguishes between strictly wholesale grocers — those who buy and carry stocks and sell to dealers only, without discounts and rebates of a profit sharing or cooperative nature and who have no substantial re-

tail interest; and others who are not strictly wholesale grocers. The latter classification includes stores doing both a wholesale and retail business, chain stores, supply houses, dealers in specialties and co-operative houses which are given the same prices as strictly wholesale dealers by some manufacturers. The distinction between a wholesaler and retailer is clear. A wholesaler is one who sells to other dealers without a profit-sharing discount, while a retailer sells to consumers. The quantity sold has nothing to do with the classification—the wholesaler may sell in fraction case lots to retail dealers while the retailer may sell in dozen case lots to a large consumer.[1] Many wholesalers adhere very strictly to this distinction and sell only to dealers, and some manufacturers refuse to sell anyone but strictly wholesale dealers. This distinction, however, is not always observed. The chain and department stores although selling only at retail often buy on the same or even a better basis than the wholesalers. In the competitive grocery markets a buyer's status seems to be determined solely by his buying ability. A manufacturer may claim to sell only to wholesalers and yet for the purpose of purchasing he naively classifies the large chain and department stores as wholesalers. The large stores perhaps

[1] The author has often seen strictly wholesale grocers in the smaller towns open a case of cereal and sell one or two, 10 or 15 cent packages to a retailer. Such grocers often buy in smaller lots than even the smaller city department stores or chain stores. Yet they are strictly wholesale, in that they sell only to other dealers, and are so classed in the directories.

deserve to buy on a wholesale basis, but why claim to sell only to wholesalers and then class all large buyers as "wholesalers"? This suggests that perhaps the definition of the wholesaler should be changed to meet altered conditions.

Wholesaler and jobber.—In some trades there is a distinction between the wholesaler and the jobber. A distinction is often made, for example, in the produce markets. In Philadelphia the car lot receivers of fruits and vegetables are known as wholesalers' while the dealers buying from them and selling in relatively small lots to the retail dealers, hotels, and restaurants are called 'jobbers.' The distinction seems to be strictly observed and if the same firm does both a wholesale and jobbing business it feels entitled to two profits. Somewhat the same distinction is made in the Chicago Produce Market. "In a general way the term, 'jobber' is limited to dealers in less than car lots, but the more prominent jobber often purchases in a very large quantity. In all cases he sells to the retailers."[2] In Pittsburgh, on the other hand, this distinction is seldom made. The produce market in Pittsburgh is a yard market, most of the produce being sold directly from the cars, although most of the dealers have stores. Some of them refer to their store business as 'jobbing' business and the yard business as "wholesale" business but the distinction is of little value for sales are made from the cars in as small lots as from the stores.

[2] Nourse, E. G.: "The Chicago Produce Market," p. 28.

There are, however, a few "real jobbers" in the market who buy from the car lot receivers and sell to the retail dealers.

In the sale of shoes "the jobber proper usually handles lots of shoes ordered by merchants but not taken from the manufacturers and any over production that may have resulted from a failure to sell the entire output to wholesalers or retailers":[3]

In this book the terms wholesaler and jobber will be used interchangeable when referring to the standard merchandise lines — groceries, hardware, dry goods, and drugs.

General vs. specialty wholesalers. — Wholesale dealers may be classified as general, and specialty dealers. The general wholesaler is one who handles a full or complete line of merchandise, such as groceries or hardware. The specialty wholesaler is one who handles only a few articles or a relatively small group of articles, as flour, hosiery, or knit goods.

The general wholesaler is still common in the handling of groceries and hardware. The hardware jobber commonly handles over 10,000 items. A jobber recently stated to the author that counting sizes his concern handled 40,000 different items. A wholesale grocer often handles from 5,000 to 10,000 different items. Some of the large grocery houses are said to handle 40,000 items. A half century ago the general jobber was common in the dry goods trade but with the rise of the department stores and

[3] Report of Federal Trade Commission: "Leather and Shoe Industries," p. 168.

the rapid increase in the use of ready to wear clothing the general dry goods jobber has been almost entirely replaced by the specialty jobbers in the large eastern markets,—New York, Boston, Philadelphia, Baltimore, and Chicago; but is still common in the smaller cities. There are only two general dry goods jobbers in New York compared with 98 specialty dry goods jobbers who handle woolen goods.[4] The handling of such a large number of articles by the general jobbers involves many serious problems in purchasing, stock keeping, and selling, which will be discussed later.

The specialty wholesalers are common in the handling of dry goods; flour; fruits and vegetables; butter, eggs, and cheese; grain and hay; tobacco; etc. It is not uncommon for a wholesaler to handle nothing except flour, potatoes, or butter and eggs. The merchandising brokers mentioned in a previous chapter are really specialized wholesalers. Some of the highly specialized wholesalers are known as car lot dealers and handle only one or two commodities in car lots, e. g. potatoes, or flour. They need no warehouse and their business very closely resembles that of a merchandising broker.

The problems of the specialty jobbers are different in many ways from the general jobbers. They have simpler buying, warehousing and selling problems. They are specialists in the merchandise handled and can render a high type of service to both the producers and retailers.

[4] Cherington, Paul T.: "The Wool Industry," ch. 9.

The distinction between the general and specialty jobber is not always clear. The general jobber may cut off certain classes of goods until he resembles a specialty jobber and a specialty jobber may add additional lines until he resembles a general jobber. For example would a jobber handling different kinds of fruits and vegetables in season together with butter, eggs, and cheese be classed as a general or specialty jobber?

Semi-jobbers.—Many dealers do both a wholesale and a retail business. Such dealers are often called semi-jobbers. In the sale of hardware such dealers are especially common and are found in large numbers in the agricultural states in the South and West.

Mail order jobbers.—There are a few mail order wholesale dealers, such for example as Butler Bros., in Chicago, and the Baltimore Bargain House. in Baltimore. Such houses are helpful especially to retailers in the rural communities who are in direct competition with the various mail order houses. One of the arguments used by wholesale mail order houses is that they eliminate the expense of traveling salemen—one of the largest expenses of the ordinary jobber—and hence can sell cheaper than other jobbers. Some of these mail order jobbers do, however, employ some traveling salemen who call upon the retailers occasionally.

Cooperative buying organizations.—In order to meet chain store competition retailers have been rapidly establishing cooperative buying organizations,

in the hope of obtaining their goods on a basis enabling them to compete with the chain stores. These organizations may simply consolidate orders so as to obtain quantity prices or discounts or they may obtain warehouses and conduct fully organized jobbing establishments. The American Grocers Society, Inc., of Newark, N. J., is said to be owned by 15,000 retailers, and to have branches at Washington, Savannah, Boston, New York, Syracuse, Baltimore, New Orleans, Richmond, Albany, and Pittsburgh. Its sales are reported to be about $5,000,000 a year. The Merchants Grocery Co., reports over 40 stores, mostly in the South. The Girard Grocery Co., of Philadelphia, is one of the older and better known cooperative jobbing concerns. The Mercantile Cooperator of March 6, 1920, printed a list of 14 other groups of cooperative wholesalers, having a total of 44 separate organizations or branches. More will be said about these cooperative buying organizations in a later chapter. The Standard Purveyors, Inc., is a cooperative buying organization for New York restaurants. It claims to save its members 10 per cent on the cost of supplies and reports a monthly business of $200,000.[5]

Commission merchants.—The commission merchant was defined in the chapter on Brokers and Sales Agent (ch. IV) as one who receives goods from others for sale, who has control of the goods and when sold accounts to the owner for the proceeds of

[5] *New York Times*, December 26, 1920.

the sale. Commission merchants are those who receive goods on consignment for sale. It has been pointed out that the work of the brokers often resembles closely that of the commission merchants, but as the commission merchants generally have warehouses and actually handle the goods as their judgments dictate they will be discussed in this chapter. In actual practice the same dealer may do a commission business, a brokerage business, and a merchandising business.

Commission men may handle any kind of goods. Textiles, vegetables, fruits, grain, live stock, poultry, butter, eggs, chemicals, and cotton are some of the articles that have very commonly been sold on a commission basis. Farm products have, however, more generally been sold in this way than any other class of goods. This was formerly such a common practice that all produce dealers came to be known as commission merchants. This name still sticks to the produce dealers although many of them now do little or no commission business.

Decline in commission business.—Not nearly as many goods are sold on a commission basis as formerly.[6] There have been many reasons for the decline in the commission business. Perhaps the most important has been the fact that surplus stocks, or

[6] According to a statement made some years ago by John Wanamaker, until 1875 trade rules limited the sales of manufacturers to commission men, and of commission men to jobbers. "Annals of the American Academy of Political and Social Science," April, 1900, sup. p. 121-135.

goods which couldn't be disposed of in any other way, have been shipped to commission men for sale which has meant that the largest quantity of goods have been consigned when there was a glut in the market. This has meant that the prices received were low and the shippers dissatisfied. Hence the saying that "its a poor market when you have to consign." Also as marketing methods became better developed and better understood it was easier for the producer to get in direct touch with the wholesalers, jobbers, or retailers. On their part the wholesalers have often gone direct to the producers and bought outright. There have been many charges of unfair dealings on the part of commission men—fraudulent returns to shippers, sale of the goods to themselves at unreasonably low prices, etc.[7] The commission men do not claim that there have not been dishonest men in the commission business, just as in any other business, but they do claim that a large part of the trouble has lain with the shippers, or with market conditions which the latter do not understand. For example the goods may arrive in such poor condition that they must be sold at a low price. The shipper is loathe to believe that his product was not of good quality. It is also pointed out that many shippers consign their goods only when it is impossible for them to dispose of them in the regular way, which generally means that

[7] On this point read Federal Trade Commission Report on "Wholesale Marketing of Food," pp. 165-172.

the market is glutted so that goods can only be sold at exceptionally low prices. Again the market price may fall while the goods are in transit. Small shippers often grade their goods very carelessly and pack them in whatever containers are at hand. Buyers do not like to buy by guess and so pay more for a standard product.[8] Dealers at times refuse to buy outright from any shippers except those known to ship good packs. This often means that poor packers must consign their goods.

Persistence of commission business.—In spite of all the complaints about the prices received for goods sold on commission, considerable amounts of certain products are still sold in this way. Small country buyers may ship such goods as eggs to a "concentrator," who makes up car lots, on a commission basis. Live stock is still very largely consigned to commission men. Much grain from the Northwest is still marketed by commission men in Minneapolis and Duluth while large quantities are sold on con-

[8] An actual incident will help to make this clear. A farmer near an eastern city shipped his cantaloupes to a dealer to be sold on a commission basis, telling the dealer that they were the finest he had ever grown. When the cantaloupes arrived they were packed in barrels and boxes of various sizes. When these were opened it was found that the cantaloupes were dirty, many of them were sun burned, and all sizes were mixed together. It was very difficult to sell them in competition with the western product, which came uniformly graded, of neat appearance, and packed in crates of uniform size. The flavor may have been much better than the western cantaloupes which are picked green, but the public buys largely on looks. The commission man found it very hard to get any retailers interested in the local product and was unable to get a price which was satisfactory to the farmer.

signment in Kansas City and Chicago.[9] There is a continuous market for these products so that sales can always be made. The prices are published and widely distributed so that the buyers can know whether they receive a fair price for the grade of goods sold. A considerable quantity of butter is still sold in New York on a commission basis.[10] The sale of New Jersey vegetables on a commission basis in Philadelphia furnishes another example of the continuance of the consignment business. Very little southern produce is received in Philadelphia on a consignment basis whereas a large part of the nearby New Jersey produce is marketed in this way. The reason given for the continued consignment of the Jersey product is that the growers come into personal touch with the commission men and gain confidence in their honesty. They are near enough to visit the market frequently and see the conditions in which their goods arrive and ascertain the actual prevailing prices. It seems from these examples that goods can be satisfactorily marketed on a commission basis if the shippers can feel satisfied that they are being given a square deal.

Assumption of risk.—The difference between outright sale and consignment is in the assumption of risk. When the producer sells f.o.b. shipping point he frees himself of any further risk and also gives up any chance of any further profit. If he ships on

[9] Weld, L. H. D.: " Marketing of Farm Products," p. 84.

[10] Weld, L. H. D.: "Marketing of Farm Products," p. 89.

a consignment he takes the risk of losses and also has the chance of profiting by an increase in prices or by fortunate sales. This is probably the reason why more goods are shipped on consignment when the quality is poor or the market glutted as the shippers are then unwilling to accept the low price offered and are willing to take the risk of a loss in the hope of getting a better price in one of the central markets.

Many states have passed laws regulating commission men but they seem to have been of little use in reviving the commission business. The practice of some commission men of selling the shippers' goods to themselves has been especially criticised. The suggestion that there should be some public marketing organization in the large cities to which growers could consign their goods with the assurance of getting honest treatment is not without merit.

Rate of commission.—The rate of commission received by commission men may vary all the way from 1 to 15 per cent, but in the sale of farm products, 5, 7, and 10, are the most common percentages, except on the sale of large lots, (e. g. car loads) where the rate is generally much lower.

The number of wholesalers. — The number of wholesale dealers handling various lines of merchandise was stated as follows in 1913:[11]

[11] Nystrom: "The Economics of Retailing," pp. 387-389, quoting from R. G. Dun Co.'s list as compiled by the Rapid Addressing Machine Co.

Foodstuffs:

Groceries	3,840
Produce	7,785
Provisions	1,221
Fruit	1,831
Butter and eggs	1,194
Grain	1,210
Flour, Feed and Grain	1,572
Meats	781
Bakers	620
Coffee, tea and spices	547
Cheese	263
Honey	113
Fish	950
	21,927

Wearing Apparel:

Dry Goods	725
Clothing	160
Hosiery	1,105
Fancy Goods and Notions	786
Notions and Toys	1,105
Men's Furnishings	315
Millinery	424
Hats and Caps	201
Boots and Shoes	522
Neckwear	315
Gloves	63
	5,821

Hardware and House Furnishings:

Hardware	928
Agricultural Implements	240
Harness and Saddlery	314
Seed	597
Furniture	307
Carpets	83
Wall Paper	284
China, Crockery & Glassware	340
Woodenware	131
Electrical Supplies	424
Glass, Oil and Paint	605
	4,253

Drugs	668

Miscellaneous

Liquors and Wines	5,641
Stationery	391
Paper	905
Jewelers	815
Sporting Goods	423
Cigars and Tobacco	1,991
Leaf Tobacco	592
Sponges	37
Florists	1,765
Junk	189
	12,749
Grand Total[12]	44,750

[12] There may be some duplication in this table as dealers handling more than one article or line of goods may have been included in more than one class or group.

Thomas' Grocery Register for 1919 lists over 6,000 (6,051) wholesale grocers approximately two thirds of whom are classed, as strictly wholesale. This would mean about 4,000 strictly wholesale grocers in 1919. For this year Dun's report shows over 5,600 wholesale grocers of whom nearly 3,000 were rated at over $100,000 and about the same number as doing a strictly wholesale business. Thomas' directory lists over 600 wholesale provision dealers, a very large part of this number, however, consists of the branch houses of the Chicago meat packers; and over 1000 wholesale flour and feed dealers.

Cherington gives the number of general jobbers who handle woolen goods as 310. This is less than half the number of dry goods jobbers given in the above table, but the figure in the table may include small jobbers who do not handle woolens or a certain number of specialty jobbers.

The United States census for 1910 gives the following number of wholesale dealers: Importers and exporters, 4,905; jobbers, 3,181; other wholesale dealers, 42,962. Excluding the importers and exporters this was a total of 46,143 wholesale dealers of all classes. This compares with a total of 44,750 shown in the above table for 1913. Allowing for the wholesale liquor dealers put out of business by prohibition and the increase in the number of wholesalers in other lines, we may estimate the present number of wholesaler dealers of all classes as approximately 45,000.

This is one wholesale dealer to every 20 or 25 retail stores and according to the 1920 census figures, one wholesale dealer to every 24,000 people. These figures do not include as wholesale dealers the warehouses of manufacturers or chain stores.

SERVICES PERFORMED BY THE WHOLESALER

Much criticised.—In recent years the middlemen have been much criticised by the pulbic. The public to a large extent has in mind the wholesalers, although it has no very clear idea of who the wholesalers are or what they do. To many people the wholesalers appear as vague, rather intangible, persons, who stand between the producers and retailers and collect toll on all goods passing through their hands. They do not know whether there is one or half a dozen wholesalers back of the retailer, but they are very strongly of the opinion that there are too many wholesalers and that the profits taken by them are unnecessary, or at least unreasonably high. The public comes into direct contact with the retailers and sees that they perform a necessary function. The retailers also have a chance to defend themselves and to show what useful functions and services they perform.

The wholesalers, however, perform many services that are useful, if not absolutely necessary, to the present process of market distribution. The principal services performed by the wholesalers are:

1. Warehousing and distribution of goods to the retailers in small lots; 2. supplying the produc-

ers with ready made sales organizations; 3. Extending credit to the retailers; 4. Educating the retailers; 5. Making possible the existence of the small community stores.

1. **Warehousing and distribution in small lots.**—Most retailers must buy their goods in relatively small quantities. As a rule their capital is limited and their warehouse space small. Even if they had sufficient capital it would not be good business to keep it tied up for long periods in idle stocks of goods. Due to the high freight rates on less than car load shipments and delays in transportation it is desirable to have stocks of goods carried near the retailers so that deliveries can be made cheaply and quickly. Large full line manufacturers could provide warehouses conveniently situated for supplying the retail dealers. Small or medium sized manufacturers can hardly do so, due to the lack of capital or to the fact that their sales are too small to justify the expense. When manufacturers have their own branch houses and supply the retailers direct, they are in reality performing a jobbing service. The chain stores have their own warehouses from which they supply their retail stores in much the same way as the wholesalers supply the individual retailers. The chain store may save the jobbers net profit, and the expense of soliciting business, but it cannot avoid the expense of receiving, storing, and delivering the goods to the separate stores. This warehousing is a real and necessary service. It may be debatable whether it can be performed most efficiently by the

wholesalers, by the manufacturers, or cooperatively by the retailers, but it cannot be denied that it is necessary and that when the wholesalers perform it they render a very valuable service.

The manufacturer selling the retailer has thousands of small shipments instead of a few large ones. Warehouses must be bought or rented or arrangements made with others to act as transfer agents if the product is at all bulky; and a large part of the country is covered. If all shipments are made from one point the high freight rates on bulky products in less than car load shipments, will be extremely heavy if not absolutely prohibitive.

2. **Furnishes manufacturers with a sales force.** —The wholesaler has a ready made sales organization to offer to the producer. When a new factory is organized it has the option of sending its own salesmen to the retailers or of using the jobbers' ready made sales organizations. It is much cheaper for the small manufacturers to utilize the services of the jobbers' selling organizations than to maintain their own. The manufacturer is a specialist on production while the jobber is a specialist on marketing. It is often necessary for the small manufacturers to devote practically their entire time and energy to the problems of production and leave the marketing of their products to others. The simplest method is to appoint sales agents or brokers to place their goods in the hands of the wholesalers. The next step is to build up a sales organization large enough to sell the wholesalers direct. It is, however,

a much more serious matter to dispense with the wholesalers and sell the retail trade direct. There are approximately 60 retail grocers to one wholesale grocer, and 20 retail hardware stores to each hardware jobber. (Many of the latter are semi-jobbers who do a small wholesale business.) From this it can be seen that a much larger sales force would be needed to sell the retailers direct. The employment, training, and supervision of this force is a much larger matter than managing the small force necessary to work the jobbing trade.

Manufacturers of large lines of goods (e.g., Heinz's 57 varieties or a complete assortment of shoes or suits), or whose product consists of large articles, such as automobiles, can afford to sell direct to the retailers. Manufacturers of short lines or specialties, on the other hand, often find the expense prohibitive. This is especially true outside of the large cities, where a salesman can call on only a few dealers in a day. If his sales to each dealer are small his percentage of expense will be high, while if he were selling a full line or expensive articles his total percentage of expense might be within a reasonable limit. This explains why some manufacturers sell the retailers direct while others sell through jobbers.

If each manufacturer sent his salesmen to the retailers the latter's time would be so occupied with interviewing the salesmen that they would have little time for other business. The ordinary retailer is not in a position to keep in touch with all the

manufacturers whose goods he handles. To do so properly would involve the maintenance of a fair sized purchasing department. The amount of bookkeeping would also be greatly increased.

From a social point of view it is more economical to have one jobbers' salesmen represent hundreds of manufacturers than for each manufacturer to have his own salesmen working the retail trade.

3. **Extension of credit to retailers.**—A great many retail dalers operate very largely upon borrowed capital. Many of them do not have financial standing sufficient to enable them to get the necessary funds from the local banks. The wholesalers by selling them on credit enable them to stay in business. The retailers have had to buy on credit because they have had to sell on credit. If they could sell for cash they could pay their bills promptly, but as long as they must sell on credit many of them must buy on credit. A substantial part of the retailers will, in all probability, have to buy their goods on credit for many years to come. The wholesaler in selling them on credit performs a service which in many cases is necessary to their existence. The manufacturer selling the retailers direct has the problem of extending them credit. This involves not only capital but the necessity of passing on the credit of individual dealers and of collecting many small accounts.

4. **Education of the retailers.**—The wholesalers have come to realize that their interests are bound up with the interests of the retailers; that

if the independent retailers are forced out of business that they will also be forced out of existence. It, therefore, behooves the wholesalers to do all that they can to help increase the efficiency of the individual retailer so that they can meet the competition of the chain and department stores. Many retailers have entered the merchandising field with no particular training or education to fit them for such work and many of them have been very inefficient. The Federal Trade Commission reports that only one out of every 25 rural implement and hardware merchants has an adequate accounting system.[13] Many jobbers are trying to educate the retailers in methods of stockkeeping, window display, bookkeeping, selection of goods, educating salesmen, advertising, etc. Most jobbers have come to realize that it is not good business to oversell the retailer on any particular article, or class of articles; that the better policy is to help the retailer make a proper selection of goods so that he can carry a well assorted stock and use his capital to the best advantage.

Some jobbers have reported that the retailers are unappreciative, if not hostile, to their efforts to help them; that the retailers feel that the wholesalers are attempting to dictate to them how they should run their businesses. If such reports are true they show that the retailers and the wholesalers are not properly coöperating. The retailers should be glad of any help that will increase their efficiency as mer-

[13] "Annual Report for 1919," p. 37.

chants. The wholesalers should render services and give advice tending to do this in a spirit of helpfulness and in such a way as to avoid the impression that they are attempting to dictate to the retailers.

5. **Makes small community stores possible.**—The wholesaler is necessary to the existence of the local or community retailer. Large retailers who have adequate capital, large warehousing facilities, and who can afford an efficient purchasing department capable of keeping in close touch with the numerous brokers or manufacturers, can buy without the use of the wholesaler. Manufacturers producing a large or full line of a certain class of goods can afford to maintain a large sales organization and sell the retailers direct. Assemblers will, however, be necessary as long as the small local retailers and the relatively small manufacturers exist. Merchandise could apparently be distributed somewhat more cheaply through fewer and larger retailers without jobbers. The crossroads, village, and corner stores, however, offer many conveniences to the consumers and as long as they demand such convenient supplies, the jobbers will be necessary, unless retailing is to be taken over by the large chain stores. In so far as the independent retailer is of service to and demanded by the public, just so far is the jobber necessary.

Services performed by the specialty wholesaler.—What has been said above refers especially to the general wholesalers although most of it applies equally to most of the specialty wholesalers. As a

rule the specialty wholesalers have warehouses and supply the retailers with goods in small lots as needed. They also sell on credit, supply the producers with sales organizations and may also give useful advice to the retailers. Since the specialty wholesalers handle a smaller number of articles they can devote more attention to the sale of each producer's goods. They can give the retailers better advice as to the selection of goods, changes in style, and the prevailing market conditions. On the other hand it is necessary for the retailer to deal with more jobbers to keep his line complete.

Specialty wholesalers who handle only one or two articles in car lots, and have no warehouse facilities, perform almost the same services as the broker. In fact, this buyer very likely doesn't care, and perhaps doesn't even know, whether the goods belong to the dealer or to his principal. From this it is seen that different types of specialty jobbers may perform different kinds of services.

Services performed by manufacurers' branch houses.—The branch houses of the maunfacturers are in reality specialized jobbing establishments pushing the sale of one brand of goods. These branches may be owned directly by the parent company, may be separately incorporated but operated under the company's name, or may be conducted under a different name and controlled by stock ownership.

The problems of these branch houses are similar to the problems of the jobbers, except for the fact

that their policies may be worked out for them at the main office. They must receive and store goods, solicit business, make shipments, extend credit to the retailers, make collections and give advice. Unless the manufacturer produces an extensive line of goods he may find that the expenses of his branch houses are very high in relation to the value of the goods sold. For this reason the branch house may take the "agency" for supplementary lines to be handled on a jobbing basis. In the farm implement business, for example, the branch houses of a manufacturer of tillage implements may handle a grain drill made by a second company, a line of haying tools made by a third company and so on. Thus the salesmen while selling tillage implements also sell grain drills and haying tools. This reduces the selling expense for each line sold and also increases the sales of tillage implements for the reason that the retailers prefer to buy from concerns that can supply them with a full line of implements. The principal jobbers of farm implements are the manufacturers' branch houses. Some of the smaller manufacturers maintain their own branch houses in the middle western agricultural states, while in other sections of the country their goods are handled by the branch houses of other farm implement manufacturers or by independent jobbers.[14] Since farm implements are bulky and the freight rates relatively high west of the Mississippi River some manufac-

[14] There is in reality only one implement manufacturer who maintains branches in all sections of the United States.

turers maintain branches only east of this river and depend entirely upon branch houses of other manufacturers, or independent jobbers, to market their implements in the western territory. Somewhat similar conditions prevail in the meat packing industry where the branch houses of the meat packers handle many articles not produced by slaughtering houses, e.g. butter, eggs, cheese, etc.

PROBLEMS OF THE WHOLESALERS

The large number of articles which the general jobber must carry in stock involves many difficult problems in purchasing, stock keeping, and stock turnover. These will be discussed in later chapters. It is, however, appropriate, at this point to say something of the problems of keeping up the sale of all articles and all brands of goods.

Impossible to push all lines.—The general jobbers carry thousands of different articles in stock and it is a physical impossibility for their salesmen to actively push the sale of each and every article at all times. A jobber often carries similar goods for competing manufacturers. If he pushes the sale of one manufacturer's goods more actively than those of another, the one whose goods are not pushed may claim unfair treatment and if the jobbers do not turn in a fair amount of business the manufacturer may be forced to work the retail trade direct. This is especially true when the manufacturer is expending large sums in advertising. The failure of the jobbers to turn in what the manufacturers con-

sider a satisfactory volume of business, often forces the manufacturers to employ specialty salesmen who go to the retailers from time to time to solicit orders which are filled through the wholesalers, or upon which the wholesalers are allowed a profit. The use of specialty salesmen adds to the cost of distribution and brings the manufacturers in direct contact with the retailers. This gives the manufacturers the information needed in case they decide to sell the retail trade direct and furnishes them with the nuclei of the necessary selling organizations.

Leaders.—Most jobbers from time to time select articles as leaders and instruct their salesmen to push the sale of these articles. Thus the salesmen may carry samples of the selected leaders and these leaders may be changed each month or for each trip. These leaders may be articles of exceptional value to the retailer, articles that carry a large profit to the jobber, articles which have been moving slowly, or articles on which the jobber is overstocked. If the sale of any particular leader is to be successful, whether samples are carried by salesmen or not, it is first necessary to "sell" the salesmen. It is a well-known fact that salesmen are most successful in selling those articles in which they are interested and in which they see usefulness or value. Therefore, if the sale of leaders is to be a success, it is necessary to first call them forcibly to the attention to the salesmen and to convince the salesmen that they are of good quality or offer special values. Although relatively few articles can be selected as

leaders the jobbers can in this way promote the sale of new articles being introduced on the market or the goods of manufacturers whose lines are selling slowly. There are, of course, many standard articles for which the demand is established and which sell regularly without being used as leaders.

CHAPTER V—QUESTIONS

1. What distinction was formerly made between the wholesaler and the jobber? In what trade or trades is this distinction still made? What distinction is sometimes made in the produce markets?
2. Why has the commission business declined? What lines of goods are still sold on a commission basis?
3. Enumerate the services performed by the general wholesalers. What additional services may be performed by the specialty wholesalers?
4. If the wholesalers were abolished what would be the effect on the large retailers? On the small retailers? On the large full line manufacturers? On the small specialty manufacturers? Would the consumer be benefited? Why or why not?
5. A manufacturer of a limited number of small articles sold by retail hardware stores has his product carried by the hardware jobbers east of the St. Louis and North of Atlanta. His sales are far below the capacity of his plant. To operate at a profit he must either increase his sales or produce additional articles. The latter policy will tend to high production costs. In order to stimulate sales he considers advertising extensively to create a consumer demand or of selling the retailers direct. Which policy would you recommend? Why? What would selling the retailers direct involve on the part of the manufacturer? Would this be a cheaper method than the advertising campaign? Would it be advisable to advertise extensively and also sell the retailers direct?
6. Suppose this manufacturer writes the jobbers a courteous letter explaining the situation and telling them that unless they increase their sales of his product that it will be necessary for him to sell the retailer direct. Would it be possible for the

jobbers to increase the sale of his products. If so, how? Would it be worth their while to attempt to do so in this case?

7. A has been a successful retailer of clothing. He has sold his business out for a nice profit and is looking for a larger field. He is offered a half interest in a well established wholesale grocery house. The business is in the hands of an experienced man who is getting old and who desires to turn the management of the business over to A as soon as A becomes thoroughly familiar with its operation. The firm has for years earned from six to ten per cent. on its capital. A is also offered a large interest and a vice-presidency in a new hardware jobbing concern which is just becoming established and needs additional capital. No dividends have as yet been earned. The company is in the hands of energetic young men who are thoroughly familiar with the hardware business. The sales of the two concerns are about equal. Which offer should A accept? Why?

Chapter VI

WHOLESALE DEALERS (*Continued*)

MODIFICATION OF THE WHOLESALER'S SERVICE

Specialty salesmen.—The service performed by the jobbers have, within recent years, been modified in several respects. The employment of "specialty" salesmen by the manufacturers is in reality a modification of the jobbers service, although in the grocery trade such salesmen are no longer a novelty and are now regarded as a regularly established part of the marketing machinery. The orders obtained by the specialty salesmen are sometimes shipped in bulk to the jobber and distributed by him to the retailers. In other instances the goods are shipped direct to the retailers by the manufacturers and are known as "drop shipments." The manufacturer also makes "drop shipments" to the retailers upon request of the jobbers when the latter are out of stock.

From the latter practice there has grown up in recent years in the Middle West a type of wholesaler known as the "drop shipper," who solicits orders from the retail dealers, especially from the medium sized department stores. The goods are shipped direct from the factory to the retailers, or are shipped in car lots to a central point where the

car is opened and the goods forwarded to the buyer in less than car lots.[1]

The wholesalers and the manufacturers have not always agreed concerning the use of specialty salesmen. The manufacturers have often felt that the business obtained by their salesmen was just so much "velvet" for the wholesalers and that the latter should appreciate this help and push the sale of their goods with increased vigor. They have often felt, however, that the jobbers did not push the sale of their goods and only sent in what orders the retailers voluntarily gave them. In some instances the manufacturers have even claimed that the jobbers not only did not push the sale of their goods but actually induced the retailers to cancel orders obtained by the manufacturers' salesmen in order to substitute other goods carrying a larger percentage of profit to the jobbers.

On their side the jobbers have claimed that many of the goods sold by the manufacturers' salesmen were refused by the retailers when delivery was tendered. Mr. H. F. Thunhorst, general secretary of the American Specialty Manufacturers' Association, has stated that when this association was organized in 1908 that 55 per cent of the orders could not be delivered largely because the salesmen did not require the retailers to sign the orders, but due to the work of this association the percentage of undelivered orders has dropped to 20 per cent.[2] The

[1] Cherington, Paul T.: "The Wool Industry," p. 146.
[2] Quoted in the *Journal of Commerce* of May 22, 1920.

jobbers have also claimed that the gross profit allowed by the manufacturers was too small to cover expenses and that it was necessary for them to push higher profit lines of goods. Many of these matters have been adjusted and the relation between the manufacturers and jobbers are better than formerly. On this point Mr. Thunhorst says, "We regret, however, to say that we have not the cooperation of either the jobber or retailer that we are entitled to."

The Philadelphia plan.—In Philadelphia the wholsale grocers were on the verge of elimination due to the growth of the chain stores and of cooperative jobbing organizations which supplied many of the remaining independent retailers. To help meet the situation the wholesalers established a cooperative selling company which offered to do the specialty selling for the manufacturers. The idea was that by using cooperative specialty salesmen and dealing with the manufacturers through this company the wholesalers could profitably sell the retailers on a basis enabling them to meet chain store competition. The plan was soon copied in Buffalo, Boston, St. Louis, Portland, Maine, and other cities. It is reported to have been especially successful in Buffalo and Boston. Some of the objects of the Boston selling company are: To furnish the manufacturers with a large and closely controlled selling force calling on the retail trade frequently; to discourage "missionary" work on goods for which the demand is well developed and which the retailers

will order without solicitation; to discourage jobbing brokers; and to secure the cooperation of the wholesale grocery salesmen and the retailer in selling sales company products.[3] The plan has been discussed by the Georgia Wholesale Grocers Association, but the proposal was made that they go even further and own chains of retail stores.

Manufacturing jobbers.—Many wholesalers have entered the manufacturing field and manufacture, or have manufactured for them, a part of the goods sold. Such dealers are called manufacturing jobbers. They may manufacture the goods in connection with their jobbing business, may have separately organized factories, or may have the goods manufactured for them by independent manufacturers. Some jobbers buy unlabeled goods and have their own labels put on the packages. In the purchase of canned goods the jobber often reserves the right to have the goods delivered under his own or under the canner's label. It does not seem that jobbers who attach their own labels to goods which they buy from various producers or in the open market, should be so classed as manufacturing jobbers, although this is sometimes done. To be so classed the jobber should manufacture the goods in his own plants or should have them manufactured for him under a definite contract and strictly in accordance with his specifications. If a manufacturing jobber can produce the

[3] Winthrop E. Adams, President of Boston Wholesale Grocers Association, quoted in the *Journal of Commerce*, April 1, 1920.

goods as cheaply as other manufacturers he can undersell the non-manufacturing jobbers or he can realize larger profits on the manufactured goods. Also the demand for the manufactured or private brand goods may be much larger and more widely distributed than the demand for the goods handled on a jobbing basis. For example, F. H. Leggett & Co., may be able to sell their general line of groceries only in the territory tributary to New York City, but their "Premier" salad dressing is sold over a large part of the country, and it is even handled by other jobbers and by chain stores who would not ordinarily buy from this company. In the sale of this salad dressing this company is a manufacturer rather than a jobber. Another example is furnished by Keen Kutter tools, which although the brand of a St. Louis jobbing house are sold throughout the entire country.

Wholesalers' brands.—A very large number of wholesalers have come to have their own brands. When a jobber establishes his own brand he enters into direct competition with the manufacturers. There have been two principal reasons for this step. First, the margin of profit obtainable on the manufacturers' branded goods, the price of which is often fixed to the consumer, was too small. Second, there has been a marked tendency for the manufacturers with well advertised brands to sell direct to the retail trade. The jobber with his own brand is in a better position to compete with them on an equal basis than jobbers without brands of their own. These condi-

tions have practically forced the jobbers to establish their own brands.

There is quite a difference of opinion as to the desirability of the jobbers' brands. No one can object to the jobber putting the label on goods which he himself manufactures, although the manufacturer may claim that he should not enter the manufacturing field. Perhaps little objection should be made to the jobber using his own label on goods manufactured for him in strict accordance with his specifications and under his direct supervision. The placing of the jobber's label on goods purchased in the open market or on goods not produced under his direct supervision is, however, a different matter.

Desirability of jobber's label.—The jobber claims that his label is a benefit to the consumer as he is in a position to keep the quality of the product more uniform than an individual producer. He is in a position to do this as he can purchase goods at any place and from any producer and can thus avoid the poor product which an individual producer may at times be forced to turn out due to defective raw materials, labor troubles, etc. This applies with especial force to canned goods which vary in quality from year to year due to the weather in the various canning districts. He may further claim that goods under his brand reach the consumer cheaper than goods of the same quality sold under a manufacturer's nationally advertised brand for the reason that the latter goods bear a heavy charge for advertising. Some manufacturers ordinarily market

their product under their own brands, but are willing to sell any surplus product to the jobbers for sale under the latter's brands. Other manufacturers regularly brand only a part of their output and sell the rest to the jobber for sale under the latter's private brands. In case the manufacturer sells his entire output to a jobber the latter may take an unfair advantage of him and upon renewing the contract may ask for price concessions. If the manufacturer loses the contract by refusing to grant the concessions asked by the jobber he is without an established outlet for his goods and must start at the beginning and build up a market for his product. It is also claimed that as the manufacturer is unknown to the consumer, when his goods do not bear his name, there is little incentive for him to keep up the quality of the product. If true, this means that there is a tendency for the quality of the goods sold under the jobber's label to deteriorate.

Goods should bear producer's name.—It is impossible to say from the evidence now available whether the jobber's brand has an effect upon either the price or quality of goods bearing such brands. Without opposing the use of jobbers' brands it seems to the author, that all goods so branded, which are not produced within the jobbers' own plants or under their direct control, should bear the name and address of the producer and if produced in the jobber's own plant the label should so state. The consumer has a right to know where and by whom the goods are produced and the producer has a right

to have his name on his own goods. This would not interfere with the development of the jobbers' brands as the names of the producers could be relatively inconspicuous. This policy is often followed in packing fruits sold under an association label. Each package bears the name and address of the grower. This does not detract from the prestige of the association's brand, but does allow responsibility for inferior goods to be properly placed. This same plan has been followed with other products and its use could well be made general with goods marketed under dealer brands.

THE WHOLESALER'S GROSS PROFITS

Meaning of gross profit.—In the merchandising business it is customary to consider gross profit as the difference between the cost of goods to the merchant and the price for which they are sold. The expenses of conducting the business are deducted from the gross profits and the remainder is the merchant's net profit. The public is primarily interested in the gross profit made by the merchant as this contributes directly to the selling price of the goods. The merchant, on the other hand, is primarily interested in the net profit as that is what he has left for himself. He is only interested in gross profits as the latter affects the net profits. Gross profits may be expressed as a percentage of sales (selling price) or of the cost of goods sold. The former method seems now to be the more generally used. Net profits may be expressed in either of these ways or

as a return per man, or as a percentage on the invested capital. The merchants are primarily interested in the two latter figures as they want to know what they get for their services or for their capital hazarded in the business.

Variation in gross profits.—The gross profits of the wholesalers vary with the nature of the business done, the amount of competition encountered, and the ability of the individual concern. The gross margin of profit necessary in order to make a reasonable net profit depends upon the rapidity with which the capital can be turned, the size of the units dealt in or the value of the individual sales, and the care with which the goods must be handled. The dealer in perishable foodstuffs can turn his capital much more rapidly than the dealer in hardware. A considerable part of the advantage gained in this way by the perishable foods dealer is, however, offset by the fact that (due to constantly changing prices) many sales must be made at losses to prevent the goods spoiling. The car lot dealer may turn his capital more rapidly than the dealer handling his goods through a warehouse. The car lot dealer also deals in much larger units than the ordinary jobber. For these two reasons he can operate on a much smaller percentage of gross profit than the wholesalers furnishing warehouse facilities and dealing in smaller lots of goods.

Wholesale grocers.—The percentage of gross profit made by wholesale grocers has commonly been reported as 10 per cent of sales. As a matter

of fact the percentage varies widely between different grocers and on different articles. On staples it may be much less than 10 per cent while on specialties it may be more than 25 per cent.[4] The typical (modal) gross profit reported by the Harvard Bureau of Business Research was 12 per cent in 1916 and 1917, 11 per cent in 1918 and 1919, and 8.8 per cent in 1920. The highest gross profits reported to this bureau by an individual grocer was 17.2 per cent in 1917, 14.9 per cent in 1918, and 18.0 per cent in 1919, while the smallest gross profit was 7.7 per cent in 1917, and 6.08 per cent in 1918, and 4.4 per cent in 1919. The gross profits of a number of large New York and Chicago grocers, as reported by the Federal Trade Commission, for 1916 and 1917, varied from 12.5 to 16.2 per cent.

Flour jobbers.—The average gross profits of a small number of the car lot flour jobbers in the period from 1914 to 1917 varied from 3.8 per cent in 1915 to 6.0 per cent in the first half of 1917. The average gross profits of the small lot flour jobbers during this period varied from 7.8 per cent in the first half of 1917 to 10.2 per cent in 1914. The gross profit of less than car load flour jobbers in New York varied from 4.8 per cent in 1918 to 8.4 per cent in 1914.

Shoe wholesalers.—The typical gross profits made by 76 shoe wholesalers were equal to 17.6 per

[4] The percentage actually realized varies with changes in prices. If prices rise while goods are in stock the profits are increased while if they fall profits are decreased and actual losses may occur. See Chapter XII for a fuller discussion of this point.

cent of sales in 1914 and 18.4 per cent of sales in 1917.[5]

THE WHOLESALER'S COST OF DOING BUSINESS

Variation in expenses.—The Wholesaler's expense of doing business varies with the nature of his business, the efficiency of the individual, and the rapidity of the stock turnover. The specialty car lot dealer commonly has expenses amounting to between 1 and 2 per cent of sales. Fifteen per cent is given as typical for hardware jobbers, 12.75 per cent for the wholesale druggists, and the expenses of hat jobbers run even higher. It must not be assumed that the cost of doing business is uniform for all jobbers in a given trade or within a given market. The expenses vary widely from one concern to another. This fact should be constantly borne in mind. Average or typical figures are, however, useful for making comparisons and also for memory purposes as all of the variations canot be carried in mind. An average percentage of expenses is also useful

[5] The Federal Trade Commission in its report on the "Leather and Shoe Industries," presents 17 closely printed pages, showing the gross profits made by individual wholesalers on the various types of shoes handled for the years 1914, 1915, 1916, 1917, and 1918. These profits varied from 0.8 per cent. of sales to 31.8 per cent. of sales in 1914. In 1917 a few losses were reported, the largest being equal to 17.2 per cent., while the profits ranged as high as 43.1 per cent. At the end of this long table a short table is printed showing the average percentages on cost realized on different grades of shoes. These percentages vary from 14.9 to 23.7 in 1914, from 16.2 to 24.8 in 1917, and from 18.9 to 26.3 in 1918. The figures given above as typical are the medians of these averages, expressed as percentages of sales.

to the merchants whose expenses are above the average as it warns them that their costs are above the danger line and should be reduced.[6]

Wholesale grocers.—The large general jobbers have a much higher expense of doing business than the specialty jobbers. The large wholesale grocers in New York and Chicago have a cost of doing business of from 9½ to 12½ per cent of sales. The wholesale grocers in the Tri-State territory (Pennsylvania, New Jersey and Delaware) report expenses varying from 6 to 13 per cent. The average cost of doing business in this territory is slightly over 8 per cent of sales, while the typical cost in the South is given at 7½ per cent. Many of the smaller grocers have a lower cost of doing business. Costs as low as 5 per cent have been mentioned. This does not necessarily mean that the wholesale grocery business is one of increasing costs, but rather that the smaller grocers handle principally the staple goods which can be turned more rapidly, and that they pay less to high priced officials. The author has in mind such a firm in New York. The partners come to the store early and spend the morning in filling the orders received the preceding day. In the afternoon they go out as salesmen and call on the retailers. The goods are delivered by hired

[6] A case where the dealer has failed to do this was recently called to the author's attention. A semi-jobber of hardware allowed his percentage cost of doing business to become so large that his bank warned him that if it was not reduced his credit would be cut off. If the dealer had watched his percentage of cost it would not have been necessary for an outsider to warn him of his danger.

truckmen and the only regular employee is a girl bookkeeper. This firm handles little but staple groceries which can be turned rapidly. There are said to be dozens of such firms in New York City. It is easy to see that they have very low operating costs. It is reported that the small wholesale grocers, whether in the cities or rural districts, are getting a larger and larger part of the business in staple groceries. This means that fancy groceries play a relatively larger and larger part in the business of the large city wholesalers.

As the fancy groceries must be kept in stock longer and be handled with more care the large grocers have a correspondingly larger cost of doing business.[7]

The Bureau of Business Research of Harvard University reported the wholesale grocers' common cost of doing business as 9.5 per cent of sales in 1916, 9.1 per cent of sales in both 1918 and 1919, and 9.2 per cent in 1920. The lowest cost reported by any of this number was 6.7 per cent in 1916, 6.2 per cent in 1918, and 4.4 per cent in 1919. The highest per-

[7] It has been argued that the relatively high cost of doing business of the large grocery firms is due to the fact that their officers' salaries and general warehouse shipping and overhead expenses have increased faster than the sales—in other words, that the wholesale grocery business is one of increasing costs or decreasing returns. This, however, does not appear to be correct, for the simple reason that in such a highly competitive field the firms which could not hold their costs down would never have lived to become large. The correct explanation seems to be that these large concerns are handling a large percentage of fancy groceries many of which are sold under their own brands.

centages reported were 13.7 per cent in 1916, 14.8 per cent in 1918, and 14.7 per cent in 1919. These figures covered the operations of over 100 grocers in each of the three years.[8]

[8] These percentages were itemized as follows for 1918:

Item	*Lowest Per cent.*	*Highest Per cent.*	*Common Per cent.*
Total Salesforce Expense.....	0.41	4.88	2.2
Advertising	0.001	2.33	0.04
Other Selling Expenses.....	0.001	0.49	0.03
Total Selling Expense.....	0.48	7.59	2.4
Wages Receiving, Warehouse and Shipping	0.29	2.88	1.1
Packing Cases & Wrappings....	0.01	0.48	0.05
Outward fit, etc.....	0.01	2.2	0.4
Total Receiving, Warehousing & Shipping.....	0.83	3.09	1.59
Executive Salaries (as buying)...	0.24	2.66	0.9
Office Salaries	0.25	1.57	0.7
Postage & Office Supplies.....	0.03	0.38	0.2
Telephone & Telegraph.....	0.01	0.14	0.04
Credit & Collection Expenses....	0.001	0.37	0.04
Total Interest	0.42	3.29	1.5
Total Gen. Mgn. & Buying..	1.19	3.92	2.0
Rent	0.12	0.94	0.35
Heat, Light & Power.....	0.02	0.4	0.06
Taxes (exemption blds.).....	0.01	0.43	0.2
Insurance (exception blds.).....	0.01	0.36	0.15
Repairs of Equipment.....	0.001	0.57	0.05
Depreciation of Equipment.....	0.01	1.39	0.14
Total Fixed and Upkeep....	1.13	4.27	2.45
Miscellaneous	0.02	0.5	0.2
Losses from Bad Debts.....	0.01	1.71	0.22
Total Expenes	6.15	14.79	9.1

From "Bulletin No. 14," of Bureau of Business Research, Harvard University.

These costs include outward freight and total payment of interest. These two items are often omitted from expenses, outward freight, being considered a deduction from sales and interest being taken care of from profits. These figures are all taken from grocers who kept their accounts in accordance with a uniform system, or whose accounts could be adjusted to the uniform system. From this fact it is plain that they do not include the small, cheaply operated wholesalers of the type mentioned above.

Flour jobbers.—The average expenses of doing business of a small number of car lot flour jobbers, expressed in percentages of sales, were as follows: 1914, 1.6%; 1915, 1.4%; 1916, 1.7%; first six months of 1917, 1.5%. The costs of the small lot flour jobbers, who maintained warehouses and sold in small lots, were much higher. Average percentages for a much larger number of small lot flour jobbers were as follows: 1914, 6.8%; 1915, 5.5%; 1916, 5.6%; first six months of 1917, 3.5%.[9] From these figures it can be seen that during this period of rising prices the cost of doing business did not increase nearly so rapidly as the price of flour.

Produce dealers.—The expenses of many wholesalers and jobbers of fruits and vegetables and of butter and eggs are between 3.5 and 7 per cent, although the costs of jobbers dealing in small lots

[9] Report of the Federal Trade Commission on "Flour Milling and Jobbing 1918," p. 17. See also Commercial Wheat Flour Milling, 1920, p. 52.

may be as high as 10 per cent. The c... lot wholesalers have costs of from 1 to 2 per cent.

Shoe wholesalers.—The average expenses of 52 shoe wholesalers was 13.8 per cent in 1914 compared with an average expense of 13 per cent for 57 wholesalers in 1917.[10]

THE WHOLESALER'S NET PROFITS

Wholesale grocers.—The common net profit for over 100 wholesale grocers in 1916, as reported by the Harvard Bureau of Business Research, was equal to 2.4 per cent of sales. The largest net profit reported was 7.01 per cent and the greatest loss reported was 1.1 per cent. In 1918 the common net profit of the 145 grocers reporting to this bureau was 1.75 per cent, while the largest net profit was 4.7 per cent and the largest loss was 0.9 per cent. The common net profit of 159 grocers in 1919 was 1.9 per cent, the greatest profit was 5.5 per cent, and the greatest loss was 2.5 per cent. During 1920 317 wholesale grocers reported an average loss of 0.4 per cent. The large New York and Chicago Wholesale grocers, during 1916 and 1917, had net profits ranging from 1 to 7 per cent of sales. The average being about 3.5 per cent in 1916 and 4.5 per cent in 1917. The percentage of net profits made by these large concerns were greater than were realized by the great majority of wholesale grocers throughout the country. This probably is due to the fact that they

[10] Federal Trade Commission Report on "Leather and Shoe Industries," p. 154.

handle a larger percentage of fancy groceries and goods under their own brands, than most of the smaller concerns.

Flour jobbers.—The car lot flour jobbers had average net profits varying from 2.3 per cent of sales in 1915 to 4.5 per cent for the first six months of 1917. The net profits of the small lot flour jobbers varied from 2.4 per cent in 1915 to 4.7 per cent during the first half of 1917. The average net profits of New York Flour Jobbers varied from 1.4 per cent in 1918 to 3.5 per cent in 1916.

Shoe wholesalers.—The typical net profits of the wholesale shoe dealers was 3.8 per cent in 1914 and 5.4 per cent in 1917.[11]

Net profits on investment.—The percentage of net profit earned upon investment is what the merchant is primarily interested in. A merchant would gladly cut his percentage of both gross and net profit on sales in half if by so doing he could increase his stock turnover sufficiently to substantially increase the percentage of net profit on investment. The public is also interested in the percentage of net profits on investment when it wishes to ascertain if the merchants have been "profiteering."

Increase during periods of rising prices.—During a period of rising prices there is a tendency for the increase in rent, wages, and overhead expenses

[11] These percentages are the differences between the typical gross profits shown for 76 concerns and the actual average expenses of 52 concerns in 1914 and of 57 concerns in 1917. The average percentages for identical concerns might vary slightly from these figures.

to lag behind the increase in prices. This means that the percentage of expenses on sales tends to decline. If the percentage of gross profit on sales remains stationary the percentage of net profits on sales will be increased. If the expenses of conducting the business increase as rapidly as prices, the percentage of net profit on sales will be stationary, but the amount of net profits will be increased in the same proportion as the increase in prices. If prices double the amount of net profit will be doubled. As the capital investment does not ordinarily increase as rapidly as prices, the percentage of net profit on investment is increased. If the amount of net profit is doubled while the investment remains fixed the percentage of net profit on investment will be doubled. The opposite tendency operates during periods of falling prices.

During the war, speaking generally, the percentage of net profits realized on sales by all classes of dealers both wholesale and retail, either increased or remained stationary. Declines were the exception. This meant greatly increased percentages of net profits on invested capital. Whether this constituted "war profiteering" is a debatable point. The consuming public very generally felt that it did. On their side the dealers contended that they must make extra profits during a period of rising prices to compensate for losses incurred during a period of falling prices. They further contended that their own living expenses were increased by the rising prices and that interest rates also advanced so that they should

make a larger percentage of net profit on their capital invested in the mercantile business. These reasons, however, scarcely justified some of the profits made during the period of war prices.

Wholesalers of groceries, shoes, and flour.—Unfortunately relatively few figures showing the percentages of net profit on investment are available. The Federal Trade Commission has, however, published figures showing the percentage of net profits on investment realized by a few large wholesale grocers in New York and Chicago for all or part of 1917 and for 32 shoe wholesalers for 1918 and 1919. The percentages were as follows for the wholesale grocers: 12 months, 14.4 per cent; 10 months, 4.3 per cent; 6 months, 15.1 per cent, and 6 months, 10.4 per cent. The shoe wholesalers had average profits of 22 per cent in 1918, and 31 per cent in 1919. The average percentages of net profit realized on investment by the flour jobbers are shown by the following figures:

	Per cent. Net Profits on Investment			
	1914	1915	1916	1917[1]
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*
Car Lot Jobbers.....	37.5	24.3	31.5	60.7
Small Lot Jobbers.....	22.1	21.1	26.2	51.9

[1] Six months.

THE FUTURE OF THE WHOLESALER

Threatened from both sides.—Many predictions have been made that the wholesalers were doomed and would soon be forced out of business. They are threatened from both sides. Manufacturers when they become large tend to build up their own

selling organizations and go direct to the retail trade.[12] The large retailers also attempt to buy direct from the manufacturers. The department stores, mail order houses, and chain stores are in a great many instances able to do this successfully.

Wholesale grocers.—The recent rapid growth of chain stores, and more recently, the organization of cooperative jobbing houses by the retailers, have threatened the very existence of the wholesale grocers. Not only this, but they were faced with the competition of the large Chicago meat packers who were becoming very large factors in the sale of groceries before the agreement was made between the packers and the Federal Department of Justice under which the packers agreed to withdraw from the sale of groceries.[13] Yet, in spite of all this competition the number of wholesale grocers does not

[12] A recent example is furnished by Proctor & Gamble, manufacturers of "Ivory" Soap, "Crisco" and other products, who announced in the early summer of 1920 that they would in the future sell their products direct to the retailers. For some years they had sold the retailers direct in the New York metropolitan district but they threw the wholesale grocers into a furor when they announced a similar policy for the entire country.

[13] One packing company in 1917 handled $16,000,000. of canned goods or more than twice the amount handled by the two largest wholesale grocers in the country. In this year this same company sold 16,000,000 pounds of rice. The packers were also becoming large factors in the sale of sugar, cereals, cooking fats and many other foodstuffs aside from meats, butter, cheese, eggs, fertilizers, hides, wool, etc. The packers by supplying the retailers direct through their branch houses have in many districts just about forced the wholesalers to stop handling such products as cured meats and lard. The competition of the packers was very hard for the wholesale grocers to meet, due to the fact that the packers

seem to have been greatly diminished. On the other hand, the number has not grown as it otherwise would have done. The wholesale grocers seem to be holding their ground fairly well, but they appear to be losing relative to the increase in population and the total consumption of groceries. If the chain stores grow as rapidly in the next ten years as they have during the last decade, it would seem that many wholesale grocers would be forced out of business and the sales of others reduced.

Position in sale of shoes.—The statement has often been made that the great majority of the American shoe manufacturers were selling direct to the retail trade. The Federal Trade Commission, however, gathered figures from 730 factories producing over 293,000,000 pairs of shoes in 1917. More than 42 per cent of these shoes were sold to wholesalers or jobbers, 50 per cent were sold to the retailers, over 5 per cent were sold through the manufacturers' own retail stores, and 2 per cent were sold direct to the consumers by mail or in other ways. Some of the shoes sold to the wholesalers and jobbers may have been for the export trade, but these percentages show that the wholesalers are still a very important factor in the marketing of shoes.

---

often manufactured the goods or bought them from the producers on very advantageous terms and were able to distribute them through their own private cars and branch houses. Prior to their agreement to withdraw from the grocery field many persons were seriously discussing the possibility of a food monopoly. See the report of the Federal Trade Commission on the "Meat Packing Industry."

Position in sale of hardware.—Over five-sixths of the retail hardware dealers purchase over one-half of their goods from the wholesalers and over one-fourth of them buy over 90 per cent of their goods from the same source.[14]

Position in sale of drugs.—It is said that the wholesale druggists supply the retailers with 85 per cent of the pharmaceutical specialties. They are also important in the sale of proprietary medicines and other goods sold by retail drug stores.[15]

Position in sale of dry goods.—It was estimated in 1912 that about one-half of "dry goods" and women's ready to wear clothing was handled by the wholesalers. The jobbers handled considerably more than half of the convenience goods and considerably less than half of the shopping lines.[16] Stores with sales over $200,000 (pre-war) generally bought direct, but bought many fill-in orders from the jobbers. Stores with sales less than $100,000 generally bought through jobbers, but often bought some shopping goods direct. The general dry goods jobbers have almost entirely disappeared from the large eastern cities, but their places have been taken by specialty jobbers.

Position in sale of produce.—The butter and egg wholesalers are threatened by the competition of the large meat packers, but as yet their number

[14] This statement is based on reports of 113 dealers made to the Bureau of Business Research of Harvard University for the year 1919. See this Bureau's "Bulletin No. 21."

[15] See "Federal Reserve Bulletin," v. 6, No. 11.

[16] Parlin, C. C.: "The Merchandising of Textiles," p. 26.

does not appear to have been greatly diminished. The independent produce wholesaler has been threatened by the organization of large selling organizations, such, for example, as the General Sales Agency of America. There has also been much talk of direct producer-consumer relations. Yet the produce wholesalers seem to do as large a business as ever.

Position in sale of farm implements.—Most of the farm implement manufacturers perform the jobbing function themselves through their own branch houses. "All of the large companies sold 95 per cent or more of their goods to retail dealers, whereas some of the smaller companies sold more than 50 per cent of their output to jobbers. . . . About 90 per cent of the sales of all (26) companies combined were made to (retail) dealers, 2 per cent to the farmers, and the remainder to jobbers."[17]

Wholesalers will continue to be important.—The wholesalers have exhibited a marked endurance and in spite of the different kinds of competition and the efforts to eliminate them made by both producers and retailers they are still an important part of the marketing machinery of the country. It appears, however, that even if the number of wholesalers has not decreased that they are handling a smaller percentage of the total merchandise sold in the United States than formerly. If the growth of large producing and retailing organizations con-

[17] Federal Trade Commission: "Cause of High Prices of Farm Implements," p. 121.

tinues as rapidly in the future as in the recent past it would seem that the percentage of merchandise handled by the wholesalers must decline still further. In the past, large organizations have been formed for the production or marketing of goods, and yet a large number of small concerns have continued to exist and compete with them. Just as long as there are small manufacturers on one side and small retailers on the other some type of wholesale dealers will be necessary. It does not appear that either the small producer or small retailers are going to disappear in the near future. The wholesalers may therefore be expected to remain an important factor in the marketing of merchandise.

BIBLIOGRAPHY

Alexander Hamilton Institute: "Marketing and Merchandising," Part I, chs. 6, 7; Part II, chs. 1, 2, and 3.

Butler, Ralph Starr: "Marketing Methods," chs. 11, 12, 13 and 14. 6.

Weld, L. H. D.: "The Marketing of Farm Products," chs. 4, 5, and 6.

Cherington, Paul T.: "The Wool Industry," ch. 9.

Nourse, E. G.: "The Chicago Produce Market," chs. 2, 3, 4 and 5.

Federal Trade Commission Reports:

"Canned Foods: Vegetables and Fruits," chs. 3 and 4.

"Canned Foods: Canned Salmon," pp. 28-30.

"Leather and Shoe Industries," ch. 5 and pp. 167-169.

"Cause of High Prices of Farm Implements," pp. 20-29 and 120-122.

"Summary of Meat Packing Industry."

"Wholesale Marketing of Food,".

"Flour Milling and Jobbing," 1918, pp. 17 and 18.

"Commercial Flour Milling," 1920, pp. 51-54.

"Harvard University, Bureau of Business Research," Bulletins Nos 5, 8, 9, 14 and 19.

Douglas, Archer W.: "Merchandising."

CHAPTER VI—QUESTIONS

1. What is the Philadelphia plan? What are its advantages and disadvantages?
2. Why have so many jobbers adopted their own brands? Do the manufacturers' brands or the jobbers' brands have the highest quality? Which reach the consumer at the lowest price? Which do you favor in your purchasing?
3. Should jobbers be allowed to place their labels on goods not produced under their immediate supervision? Should all packaged goods bear the name of the producer? Why or why not?
4. The Doe Wholesale Grocery Co., is located in a large city and has a large trade. Recently, however, the company has noted that the growth of chain stores and co-operative jobbing houses has made it much harder to keep up the volume of sales. There are many consumers' co-operative stores, and company stores organized to sell the employees at slightly over the wholesale prices. These two latter types of stores are anxious to patronize the Doe Co., but the latter hesitates to sell them for fear of arousing the ill will of the independent or unit stores who regard the co-operative and company stores as " irregular" dealers. What policy should the Doe Company pursue? Why?
5. The Smith Wholesale Dry Goods Company has a prosperous business principally with the dry goods stores in the small towns and with the rural general stores. There are several department stores in the larger towns and cities in the territory covered by this concern that buy must of their goods direct from the manufacturers but are willing to buy "fill in" orders from the nearby jobbers. Should this concern solicit this business? Should they accept "fill in" orders when received? If so, at what price?
6. A manufacturer of low-priced shoes sells to some 100 wholesalers, two salesmen being sufficient to handle the sales. The concern is anxious to increase its sales and considers selling the retailers direct or establishing a chain of retail stores. What does each change involve?
7. A manufacturer of a line of breakfast cereals and special flours has been selling his goods in bulk to wholesale grocers. Recently he put out a line of branded packaged goods. He has also packed goods for the jobbers' under the latters' labels. His own branded goods have shown encouraging

sales and carry a larger profit than either the bulk goods or those packed under jobbers' labels. He desires to increase the sale of branded goods and considers employing specialty salesmen and advertising his goods extensively. Do you consider this a wise policy? Would it be better to establish his own distributing warehouses in the trritory covered and eliminate the wholesalers? Why or why not? Should he continue to supply the jobbers with goods under their own brands?

Chapter VII

THE SALE OF GOODS AT AUCTION

Private and public sales.—Goods may be sold privately by negotiation between buyer and seller or publicly at auction to the highest bidder. The former is the more common and widely used method, but the latter is much more widely used than many people suppose.

Goods sold at auction.—Auctions of second-hand furniture, antiques, novelties, real estate, and livestock are very common. Every class of goods from jewelry to railroads is auctioned off at forced sales. Unclaimed freight is auctioned off by the railroads in "old hoss" sales. The laws of many states require that goods sold for charges, or in the settlement of debts under certain conditions be sold at auction. A very considerable part of the oranges, lemons, grapes, bananas, pineapples, grapefruit, boxed apples and some other fruits is sold at auction in the eastern markets. Auction sales are also very important in the sale of live stock, tobacco, furs, carpets, nuts, olives, dried fruits and other articles.

Decline in auction sales.—The auction method of selling is, however, apparently not as important in the United States as formerly for the sale of raw materials and standard merchandise. The use of

auctions for the sale of such commodities appears to be more general in England than in this country.[1]

The auction method of selling was formerly very important in the United States for the sale of both cotton and woolen goods, coffee, tea, cotton, hardware, shoes and furniture. Cotton cloth was sold at auction prior to 1816, or almost as soon as our mills were prepared to turn it out in large quantities. This was a common method of selling imported goods, and was applied to textiles of domestic production. The sale of cotton goods at auction continued in New York until 1897. In 1851, $7,500,000. worth of dry goods (2-3 foreign and 1-3 domestic) were auctioned off in New York. As time passed cloth came to be sold by commission houses and the auctions were used only for the sale of the surplus goods. Due to the rapid changes of styles the mills came to produce less and less surplus stocks of staples during dull periods and with the development of market organization the auction sales were abandoned. They were revived for a limited use during 1920-21. The sale of coffe, tea and cotton was taken over by the organized produce exchanges.

Sale of wool at auction.—Wool is sold at auction in many European cities, notably London, Liverpool and Antwerp and in several cities in Australia. The London auctions are the center of the world's wool

[1] In 1908 26 per cent, and in 1909 17 per cent of the foodstuffs sold in the Halles Centrales, in Paris, France, were sold at auction.—Federal Trade Commission, "Wholesale Marketing of Food," p. 251.

trade. The sale of wool at auction was tried in New York in 1894 but failed due to the variation in the quality of American wools, the high handling costs involved in the arrangement, and the poor management of the enterprise.[2]

Other Products. — Leaf tobacco is sold to the manufacturers by auctioneers for the account of the growers in the tobacco warehouses in the producing sections. Auctions are important in the sale of furs. The St. Louis auctions have been notably important during recent years, the sales at the 1920 auction amounted to over $27,000,000 or over two and a quarter million dollars daily. Over eleven million pelts were sold at the 1921 sales but due to the lower prices the sales amounted to sightly less than $11,000,000. The sales at the New York fur auction in April, 1921, amounted to over $2,500,000. The fruit auctions held regularly in the large eastern markets are probably the most important of the wholesale auctions at present held regularly in the United States. The sale of rugs and carpets at auction has been revived. One company sold 174,000 bales of rugs and 9,000 rolls of carpet at its three spring auctions in the spring and early summer of 1921. Many textile auctions were also held during this period.

Characteristics of auction sales.—The most apparent characteristics of auction sales are that it is open to the public and goods are sold to the highest bidder. Anyone is free to attend and to make pur-

[2] Cherington, Paul T.: "The Wool Industry," pp. 66-72.

chases in compliance with the rules under which the sales are conducted. The fact that auction sales are public would indicate that they are the fairest type of sales. This is generally true but all too frequently auctions have been manipulated by artificial bidding by agents of the owner of the goods, or by combinations among the buyers.[3]

All prospective buyers should have an opportunity of closely inspecting the goods offered for sale and this is granted in most cases. If this opportunity is not granted the buyers should be suspicious of the goods offered for sale.

Gives full play to law of supply and demand.—An auction sale is often said to give the freest play to the law of supply and demand and hence to make

[3] An instance of an auction which failed to establish a price based on competitive bidding, and which has been criticised as a "fake," was that of raisins offered for sale by the California Associated Raisin Co. on August 2, 1920. This company has so nearly a monopoly of the raisin industry in the United States that it has been the object of governmental investigation and prosecution. Apparently to avoid fixing the prices of raisins for the 1920 crop itself, it announced a public auction of 100 cars of loose muscatel raisins to be held in New York City on August 2, to fix the opening price. At this sale 150 cars were sold, 149 being bought by an independent raisin packer, in whose interest it was to keep the price of raisins high. The first car was bought by a wholesale grocer, but resold after the auction to the same packer at an advance in price. Nothwithstanding the fact that throughout most of the sale there was only one buyer, the latter bid the price up on himself. See copies of *The Journal of Commerce* for the last week of July and the first week of August, 1920, especially the issue of August 7, 1920. The Federal Trade Commission in its report on the "Wholesale Marketing of Foods" (pp. 178-180), lists other ways in which auctions have been criticised for certain practices.

sales at exactly the prices dictated by this law. The amount of goods for sale is known and competition between the buyers is supposed to measure the demand. As a matter of fact, however, demand seems to be relatively more important at auction sales than at private sales. An article is offered for sale—if several want it and competitive bidding starts the price will be forced up perhaps to an unreasonable height. On the other hand if there is only one bidder he may buy the article for a song. This appears to lead to widely fluctuating prices, which are in many respects undesirable. There is always the possibility of the buyers uniting and refusing to bid against each other. In such a case the owner of the goods may be justified in bidding in his own goods. In order to be successful there should be keen bidding among the buyers and this element of competition is one of the chief characteristics of most auc-auction sales. There should also be no withdrawal of goods by sellers nor bidding in of their own offerings.

Auctions contrasted with sealed bids.—In many ways an auction resembles the sale of goods to the one submitting the highest sealed bid. In both cases sales are made to the highest bidder and every one is free to bid. There are, however, two important differences. First, the sealed bids are not public, and, second, crowd psychology is lacking. The public bidding and the crowd psychology are two of the chief characteristics of auction sales.

Goods sold "as is."—Most goods sold at auction are sold "as is" and the buyer has no recourse if he

finds the goods not as good as he had supposed or if he finds a defect in the goods not known at the time purchased. An auction sale is a sale where the term *caveat emptor* (let the buyer beware) fully applies. At times goods are sold by sample or grade but generally the buyers have the right of carefully inspecting the goods before bidding.

Establishment of price.—An auction sale is the best way of selling goods for which there is no established market or no ready guide as to value, as for example, paintings or old furniture. The auction is often resorted to for the sale of goods which must be sold quickly and for which there is no well established market price. This often means that such goods are sold at a sacrifice but if two or more buyers want the goods a very fair price may be received. In fact, when two persons start to bid on the same article their desire to outdo each other, or the fact that they dislike to be outdone in public, may lead them to bid the price above the fair market value. On the other hand if bidding is not keen, goods may be sold very cheaply. This hope of picking up bargains is in fact one of the chief factors in bringing many people to the auctions.

Formerly the prices of several staples were determined at auction, as is still the case in England and Australia with wool, but as a rule auctions have been replaced in the United States by the organized produce exchanges which seem to be better adapted for this function. The auction is, however, a quick and cheap way of selling more or less standardized goods

at wholesale and is still largely used for the sale of fruit.

The fruit auctions.—There are some twenty fruit auctions in the United States, important ones being located as follows:- New York, four; Chicago, two; Boston, two; Philadelphia, Baltimore, Pittsburgh, Cincinnati, Cleveland, Detroit, St. Louis, Kansas City, Buffalo and Columbus, one each. Some fruit is sold at auction in other cities e. g., Minneapolis, St. Paul, New Orleans, Toledo Milwaukee and Denver.[4]

All but one of these are located in the East or Middle West. Some of them handle other things besides fruit, but fruit makes up the bulk of their sales.

The kinds of fruit sold vary slightly from one auction to another, but the principal kinds are: oranges, lemons, limes, grapefruit, grapes, bananas, pineapples, and boxed apples. Most of the boxed apples come from the far west. The other fruits sold come principally from California, Florida or foreign countries.

Graded vs. ungraded fruits.—Most of the fruit sold by the auction companies is carefully graded. In New York goods are sometimes auctioned from sample without the buyer having an opportunity of inspecting the entire lot. As a rule, however, the buyers have the opportunity of inspecting each shipment carefully and are not forced to buy by sample. Advocates of the auction method of selling claim

[4] Information furnished by Mr. C. R. Hector, Manager Union Fruit Auction Co., Pittsburgh.

that the buyers have as good an opportunity of inspecting the fruit as if it were purchased at private sale and in most instances this seems to be true. A common rule of the auctions is that all goods are bought "as is" and that the buyer has no recourse if he finds the goods are of poorer quality than he thought when bidding. For this reason many claim that only goods graded strictly according to recognized standards can be successfully sold at auction. On the other hand advocates of the auction method of selling argue that this is not necessary as the buyers have the same opportunity of inspecting the goods sold at auction as the goods sold privately and that they could buy goods, not carefully graded just as safely at auction as at private sale. It is argued that the eastern fruits and vegetables, which are not usually as carefully graded as the western fruits, could be successfully sold at auction. This might be true if the system were once generally established but several attempts to sell such fruits and vegetables at auction have failed for reasons which will be discussed later.

Large volume of sales.—The business done by many of these auctions is quite large. Three New York auctions sold at pre-war prices about $25,000,000 worth of goods yearly. At this writing the combined offerings of three auctions often amount to over 100 cars daily and more than 200 cars are frequently advertised. All of the auctions do not do as large a business as those in New York, but it is not uncommon for the auctions located in other

large cities to sell 20 or 30 cars of fruit within a few hours. In order to sell so rapidly the buyers must buy in relatively large quantities and the various auctions have rules fixing the minimum quantity that can be purchased. The Union Fruit Auction in Pittsburgh, for example, fixes 20 packages as the minimum for all goods except lemons for which the minimum is 10 packages.[8]

This rule in practice limits the buying to dealers or to very large consumers. The time required to attend these sales is so great that the buyers are generally limited to the wholesale dealers and a few of the larger retailers. It is not uncommon, however, for the large retailers to employ a broker to buy for them or for several small dealers to pool their interests and have one of their members attend the sales and buy for the entire group. As a rule anyone is free to buy at these auctions and a credit for a short period (e. g. 10 days) is extended to the buyers. Unknown or unreliable buyers must pay cash. As such fruit is ordinarily sold within a few hours or at most within a few days after its purchase it is evident that the buyers need little or no capital of their own.

Rates of commission charged by the fruit auctions.—These auction companies charge the sellers a commission on all sales made. The rates vary

[8] If often happens, however, that a small lot or "line" is received in a car or that less than 20 packages of a large lot or "line" is left after the former buyers take what they want. In such cases these goods must be sold in less than the specified minimum quantities.

somewhat in the different cities and the rates charged by a certain auction company may vary between different classes of goods or between different sellers. The rates of commission vary from one per cent to four or five per cent but the common rates are from one and a half to two and one half per cent of the sale price. In addition, some fruit auction companies make an extra terminal or delivery charge of three to five cents a package.

Services performed by the fruit auctions.—On its part the auction company arranges the fruit by brands for inspection, prints the catalogs, conducts the sale, collects, and remits the proceeds to the sellers. In some cities the fruit is also unloaded from the cars by the auction companies.

Ownership of fruit auctions.—The auction companies are generally owned by men in the trade and operated for profit. The success of an auction depends upon the ability to obtain large offerings of well known brands of fruit and to attract large numbers of buyers. The affiliations of the auction company with the large dealers in the market is very important. Competition between the large dealers interested in an auction company and others who are not interested in it has often resulted in keen rivalries to throw business to the auction or to keep business away from it. In certain instances such rivalries have led to the establishment of competing auctions. The buildings in which the auction sales are held in some cities are furnished rent free by transportation companies. When the amount of business

transacted and the rates of commission charged are considered it is commonly believed that many of the auction companies earn very handsome profits on their investments.

Suggestions for extension of auction sales.—The fruit auctions have attracted considerable attention among students of marketing. Some students have been so impressed by the success of these auctions that they have advocated their extension to other commodities especially other fruits and vegetables. A wholesale market operating at a cost of from 1 1-2 to 2 1-2 per cent, as many of the fruit auctions do, is undoubtedly an economical selling method. It is true that this does not cover the entire wholesale marketing cost at present as the auction companies do not ordinarily act as consignees so that the out of town sellers must have local agents or representatives to look after their interests. Further, the auctions do not ordinarily place the fruit in the hands of the retailers and a great deal of it must pass through the hands of the wholesaler or jobber between the auction company and the retailer. It is, however, argued that the auction company could act as consignee for goods and remit the proceeds directly to the country shipper and that slight changes in the rules would allow the retailers to buy their goods at auction.

Proposal for government supervision.—Some go even further and say that the auctions should be under government supervision, or that a public representative should be present to whom growers

or dealers could consign their goods with the assurance of getting a square deal and receiving the actual market price on the day of the sale. There have been a great many instances of growers being unable to find a satisfactory market for their produce and the suggestion of publicly supervised auctions to which they, or the local buyers, could consign goods at any time and feel assured of receiving the actual market price, less a very small commission is worth careful study and serious consideration. It must not be supposed, however, that such auctions could receive small lots of ungraded goods directly from the farmers for the sale of such goods would destroy the economy of the auctions and defeat the purpose of the plan. Neither must it be supposed that such auctions would always assure the country shippers of a profitable outlet for their goods. In case of a large supply or a glut in the market, such goods might often sell for less than the transportation costs. The yield of fruits and vegetables is so dependent upon the weather that there is apparently no way of accurately adjusting the amount grown to the needs of the city population at all times. Some improvement over the present system which allows goods to rot on the farm for lack of a market while the city consumers are paying high prices for similar goods should be possible. The suggestion for publicly supervised auctions should be seriously studied in this connection. The auctions should be operated in connection with the central wholesale markets discussed in Chapter II in case these central markets are established.

A cheap method of selling.—Those advocating the extension of the auction system are impressed by the economy with which sales are made. Selling goods at a cost of 1½ to 2½ per cent is in reality cheap. This low cost is made possible by the economy in the number of salesmen required. One auctioneer can sell as many goods as a dozen or so salesmen could at private sale.

Is the auction method a cheap way of buying?—The auction is a cheap method of selling, but is it a cheap method of buying? Purchasing at auction requires a large amount of time on the part of the buyers. At private sale the buyers can visit several dealers, compare their prices and purchase an assortment of fruits in a relatively short period of time, or can order by telephone, while if purchases are made at auction they must sit through a large part of the session which may last for several hours. As fruits must be bought almost daily this is a factor to be reckoned with. It is evidently impractical for the ordinary retailer to buy on the auction. He cannot leave his store long enough. He must buy from wholesalers or jobbers whose salesmen call on him or with whom he can place his order by telephone, or he must employ agents or brokers, to buy for him. The only practical way for the small dealers to buy at auction is to employ brokers or agents who attend the sales. These brokers must be paid a commission of say one or two per cent or a few cents a case. Even so this may be a cheaper method of distribution than is now furnished by the present wholesale system.

The auction's commission plus the buying broker's commission together would only amount to 3 or 4 per cent which is less than the present cost of supplying the retailers. At any rate the suggestion for the extension of the auction system under conditions allowing the free consignment of goods by country shippers is worth careful study. In all such studies the interest of the buyers as well as the sellers should be considered. It seems that one reason why the activities of the auction companies have not grown more rapidly is the fact that the buyers will not attend the sales if they can obtain desirable goods as cheaply at private sale. In other words, other conditions being equal, the buyers prefer to buy privately, and not take the time to attend the auctions.

Commodities adapted to sale at auction.—Those advocating the extension of the auction method of selling want it extended to the sale of all kinds of fruits and vegetables (and some to many other commodities). To the layman it appears that bulk apples, sweet potatoes, and cucumbers are just as well adapted to sale at auction as boxed apples, oranges, and grapefruit. He can see no inherent difference in the nature of these products. The opinions of the men in the trade differ on this point. Some claim that all fruits and vegetables could be successfully sold at auction while others contend that this is entirely impractical. The latter argue that vegetables and eastern fruits are not standardized sufficiently to permit their successful sale at auction for the reason that the buyers can form no accurate idea of the

quality of the entire shipment from the inspection of a sample or of a few packages. For example, the Pittsburgh auction started to sell barreled apples but the attempt was reported a failure due to the fact that the barrels were "topped off". The auction advocates, however, reply that the buyers at auction have as good an opportunity of inspecting the goods sold at auction as the goods sold privately and can buy ungraded goods just as safely at public as at private sale. The buyers of the "topped off" apples might have been "stung" just as badly if they had bought goods privately from a wholesale dealer (unless the dealer would allow a rebate). Those opposed to extending the auction sales advance other arguments, as for example, that the receivers often do not have sufficient notice of the arrival of eastern goods to allow the mimeographing of a catalog, or that such goods are often received in such poor condition that they must be sold immediately on arrival and cannot wait their turn at auction. To such arguments the auction advocates reply that in such cases the auctioneer could go up and down the platform or track and sell the goods direct from the car doors.

It is pointed out that the attempts to sell barreled apples, cantaloupes and other vegetables at auction have generally proved failures and that the sale of butter and eggs at auction in New York was discontinued. If such products were sold exclusively at auction the results very probably would have been different. Nothing hurts a livestock auction more

than to sell a few animals privately in advance of the "sale." Buyers do not care to bid on left overs and successful auctioneers often refuse to sell any animals in advance of the auction. When surplus vegetables are sold at auction the result could not be expected to be the best and when new products are offered at auction it naturally takes sometime to accustom the buyers to the new methods. If all fruits and vegetables were sold in this way the buyers would take it as a matter of course. The question is first, is such a change desirable and if so how can it be best accomplished.

Effect of auction sales on prices.—There is a difference of opinion as to the effect of auction sales on prices. Some contend that they lead to higher prices while others argue just as strongly that they lead to lower prices. Sellers can be expected to sell in the way that they think nets them the highest price. Some large dealers regularly have their goods sold at auction while others regularly sell their goods privately. Still others use both methods; selling privately or at auction as seems desirable from time to time. The California Fruit Growers Exchange, with its highly developed selling organization, uses the auctions in some cities while in other cities it sells its fruit privately to the wholesale dealers. From these facts it seems that the auctions have no marked effect in either raising or lowering prices.

Fluctuating prices. — Another view is that the auctions do not influence the average prices but that they lead to highly fluctuating prices. Auctions give

full play to the law of supply and demand. If the supply is small and the demand strong prices soar. On the other hand, if the supply is large and the demand only moderate, prices slump. As one dealer expressed it he wouldn't have the nerve to ask the prices sometimes received at auction. Following out this idea it is contended that in times of scarcity the buyers bid up the prices so high that the consumption declines which causes a slump in prices with resultant loss to both dealers and growers.

With auctions in operation outside prices tend to follow the prices established at auction but it is argued that if the auctions did not exist prices would not be subject to such wide and frequent fluctuations, which are detrimental alike to the interests of growers, legitimate dealers, and consumers. Information is not available to definitely prove that auctions do increase the fluctuations in prices but the evidence points that way. There are many advantages to staple prices. Although the prices of perishable foods must change frequently it seems that greater stability, and not greater variation is what is needed. The argument that auctions increase price fluctuations seems to be the strongest argument that has been made against this type of sales.

BIBLIOGRAPHY

Hartman, Henry A.: "Experiences of an Auctioneer," *American Magazine,* September, 1920.

Nourse, E. G.: "The Chicago Produce Market," pp. 17-18; 32-38.

Copeland, Melvin T.: "Cotton Manufacturing Industry in the United States," p. 198 ff.

Huebner, Grover C.: "Agricultural Commerce," pp. 21-22 and 230-233.
Cherington, Paul T.: "The Wool Industry," pp. 66-72.
Weld, L. H. D.: "Marketing of Farm Products," Chapter 7.
Federal Trade Commission: "Wholesale Marketing of Food," pp. 178-180.

CHAPTER VII—QUESTIONS

1. What are the characteristics of auction sales?
2. What can you say of the efficiency of the auction as a method of selling goods?
3. Why was the sale of cotton, coffee, tea, and textiles at auction discontinued?
4. What are the disadvantages of the auction from the standpoint of the buyers?
5. What effect do auction sales have on prices? Discuss.
6. Would it be advisable to make the auction method of selling general for the sale of staple goods not handled by produce exchanges? Explain your answer.
7. A cooperative association of apple growers has adopted brands and expects to hold the growers strictly to definite standards. The apples are shipped in both boxes and barrels. In good years the association will have several hundred cars for sale. What will be the advantages of selling direct to wholesalers, of consigning to commission men, and of having the goods sold at auction?

Chapter VIII

ORGANIZED PRODUCE EXCHANGES AND THE QUESTION OF SPECULATION

Controversy Over the Produce Exchanges.—The usefulness of the produce exchanges and the desirability of their operations have been the subject of a bitter controversy. Many students of economics and business methods have pronounced the exchanges to be one of the most efficient, if not the most efficient, marketing method yet devised. Mr. Herbert Hoover has said: "It is worth an exhaustive national investigation to determine whether an extension of a system of central markets would not afford great help.[1]

Spokesmen for the grain farmers on the other hand, often denounce them. "The Chicago Board of Trade, as now conducted, is the world's greatest gambling institution." "No more infamous piracy has been attempted or perpetrated on the much victimized nation than the present bear raid in the Chicago grain pit."[2] The idea of those having such opinions seems to be that the traders on these exchanges unite in agreements to manipulate the market in such a way as to depress the prices and hence to injure the

[1] Writing in *Saturday Evening Post* of April 10, 1920.

[2] Senator Arthur Capper, of Kansas, quoted in the *New York Times* of December 5, 1920, and the "Nation's Business of December," 1920.

farmers. It is the purpose of this chapter to explain briefly what the exchanges are, how they operate, and how their operations effect the prices of the commodities dealt in.

What are the produce exchanges?—A produce exchange is an organization of dealers[3] in certain commodities, which provides a market place where the members meet at definite times and transact business under the rules laid down by the organization. In addition to providing a trading place and regulating the business dealings of its members a produce exchange generally provides a method for settling trade disputes, establishes uniform grades for the commodities dealt in, and gathers and distributes market information. The exchange itself has no dealing in the commodities handled by its members. Its function is simply to provide facilities for the transaction of business and to regulate the business dealings of its members. The member who does not obey the rules of the exchange is subject to expulsion. Most of the produce exchanges in the United States are corporations, incorporated either under the general corporation laws, or under special acts of the State Legislatures. A few are voluntary associations.[4]

[3] Dealers as here used includes brokers and manufacturers.

[4] Duncan seems to consider all organized markets as exchanges. He so considers auctions, stock yards, municipal markets, etc. See Duncan, C. S.: "Marketing," ch. 7. The cooperative marketing organizations of farmers, discussed in a later chapter, are often called exchanges. The author, however, considers only definite organizations having regular places of business, where the members make sales by grade or sample under definite rules as organized produce exchanges.

As stated above the members of exchanges are dealers. They sell goods for country elevators, terminal elevators, country merchants, warehouse or any one else who has goods for sale. They buy goods for exporters, millers, manufacturers, or any one else who wants to buy in large quantities. Owners of large elevators, exporters, and manufacturers are very frequently members of the exchanges so that they can buy their own supplies and save the brokers commissions. These commissions are however, very moderate as was pointed out in the chapter on Brokers and Sales Agents.

Exchanges vs. auctions.— in some respects a produce exchange resembles an auction. In both goods are offered for sale and may be bid for by those present. In an auction the article goes to the highest bidder unless the seller reserves the right to reject all unsatisfactory offers. In an exchange there is no obligation upon the owner or his broker to sell at any price below the one at which the goods are offered. In an auction the auctioneer does all the selling while on an exchange any member is free to make sales. Auctions and exchanges both may deal in graded or ungraded articles but the exchanges much more commonly deal in graded goods, for which there is a world price. The auction is open to the public while the exchanges is closed to all but its own members as far as trading is concerned. Business on the exchanges is carried on under much stricter rules than on the auctions. This explains why outsiders are not allowed to buy or sell on the ex-

changes—they must limit trading to absolutely responsible parties as all contracts must be scrupulously fulfilled. Auctions ordinarily deal only in "spot" goods while exchanges often deal in both "spots" and "futures," "futures" making up a large part of the business of some exchanges.

History of produce exchanges.—The produce exchanges developed from the old markets and fairs. For centuries sales were made after the buyer had inspected the goods. As long as actual inspection of the goods was necessary business had to be transacted where the goods could be assembled. Some two or three centuries ago buying by sample became common and the markets were moved into nearby inns or cafes. From such locations it was logical for the dealers to provide their own assembly place and to exclude those who did not observe the established rules in conducting business. Produce exchanges are known to have existed in the sixteenth century. In the United States organized produce exchanges date back to the middle of the last century. The Chicago Board of Trade was organized in 1848, before a railroad had reached the city, and incorporated in 1859. The New York Produce Exchange was organized in 1850 and incorporated in 1862. The St. Louis Merchants Exchange assumed the function of an exchange in 1854. The Milwaukee Chamber of Commerce was granted a charter in 1868. The Kansas City Board of Trade was organized in 1869 and the Minneapolis Chamber of Commerce in 1881. The New York Cotton

Exchange was organized in 1870 and the New Orleans Cotton Exchange in 1871.

Some important exchanges.—The Chicago Board of Trade and the Liverpool Corn Trade Association are two very important grain exchanges, although practically every large city in the United States and many of those in other countries has its exchange. The exchanges in Minneapolis, Winnipeg, and London should also be mentioned. The New York Cotton Exchange, the New Orleans Cotton Exchange, and the Liverpool Cotton Association are important exchanges for the sale of cotton. The Chicago Butter and Egg Board and the New York Mercantile Exchange are important in the sale of butter and eggs. The Elgin Butter Board was formerly very important and for years the price of butter established there was used as the basic price throughout the country. This Board, however, fell into disuse and was finally discontinued. There are butter and egg exchanges in many cities but for the most part they are only local markets. Ninety-seven per cent of the coffee imported into the United States passes through the Coffee Exchange of the City of New York.[5] Sugar exchanges are located in New York and New Orleans. The New York Produce Exchange is an important exchange due to the number of different commodities sold upon its floor.

Commodities handled.—Some of the exchanges provide facilities for dealing in only one commodity. This is the case with the New York Cotton Exchange

[5] Duncan, C. S.: "Marketing," p. 145.

and the New Orleans Cotton Exchange. The Minneapolis Chamber of Commerce, the Duluth Board of Trade, and the Kansas City Board of Trade handle little but grain. On the other hand members of the many exchanges deal in a variety of products. The Chicago Board of Trade has four pits for future trading where wheat, corn, oats, and provisions, e. g. lard, ribs, pork—are dealt in. A large number of products are dealt in by the members of the New York Produce Exchange—grain, flour, hay, lumber, naval stores, oils, tallows, greases, vinegar, dried fruits, beans, etc., etc., but trading is generally only in wheat.[6] The members of the Boston Fruit and Produce Exchange deal in fruits, vegetables, butter, cheese, eggs, provisions, poultry, game, groceries, fish, etc.[7]

Spot vs. future sales—The business on the produce exchanges may be divided into "cash," or "spot" transactions, involving prompt delivery and acceptance of the goods sold; and "futures," or contracts involving future sales or purchases for delivery and acceptance at some specified time in the future. Cash sales may be made from sample or by grade. Tables are provided by most exchanges for the display of samples and around these tables buyers and sellers meet and carry on their business. The exchange primarily provides a meeting place for buyers and sellers but it also prescribes rules for the

[6] Carhart, E. R.: "The New York Produce Exchange," Annals of Am. Acad. of Pol. & So. Sc., Sept., 1911.

[7] Weld, L. H. D.: "The Marketing of Farm Products," p. 265.

conduct of business, provides machinery for the settling of all trade disputes, and insures both buyer and seller that they are dealing with responsible parties. The exchange thus has advantages over the old market places. The exchanges were organized to facilitate the conduct of cash sales, future trading being introduced comparitively recently. Future trading in grain started on the Chicago Board of Trade during the Civil War. Very little future trading is done on the smaller exchanges. The smaller exchanges may simply conduct daily "calls." At a specified time the members meet in the exchange room. Information as to prices on the larger exchanges, receipts and visible supplies is posted. The presiding officer calls for offerings which may be posted on a blackboard. Members bid on the offerings and whenever the price bid is as high as the price asked a sale is made. If the price bid is below the offered price no sale is made. For example a seller may offer to sell a car of a certain grade of eggs at 60 cents a dozen. Another member may bid 58 cents. No sale is made. The seller may then reduce his price to 59 cents. If the bid is raised to 59 cents a sale is made but if the bid is not raised no sale is made unless the seller further reduces his price. On these smaller exchanges it often happens that few sales are made, the members coming together to find out what the other members have for sale, what other members want to buy and what the price tendency is. When the "call" is completed for offerings of all the commodities dealt in and for bids or in-

quiries for any goods not offered by sellers, the meeting is adjourned and the members retire to their offices and stores where most of the actual business is transacted.

It would seem that no valid objection could be made to the cash business done upon the exchanges. It certainly appears better to have such sales conducted publicly under definite rules than privately under no regulations. The belief, however, became common a few years ago that the members met on these exchanges and arbitrarily fixed prices. For this reason the government intervened and ordered any such practices stopped as they are held to be illegal. The prices reported at present are the prices at which actual sales have been made. The number of sales made on many of the smaller exchanges is so small that representative prices cannot be said to be established and the local market quotations must be based on private sales reported by the dealers. Aside from the belief current at times that arbitrary prices were fixed no real objection has been made to the cash or spot business of the exchanges. Real objection is, however, made to future sales for it is the future sales that most frequently involve the question of speculation. The controversy about the produce exchanges hinges principally on the desirability of future dealings, or speculation, and does not involve the cash business.

Public prices.—The large exchanges really establish prices as the business transacted is large enough to reflect actual conditions. The actual prices are

widely distributed. They go out constantly during trading hours by wire to brokers and newspapers in all parts of the country so that they are easily and quickly available to all interested parties. Buyers and sellers can thus be informed and govern their actions accordingly.

Standardization.—Commodities can not be bought for future delivery until standard grades have been established for the reason that the buyer would have no assurance as to the quality of goods that would be delivered to him. The process of marketing a product is much simplified when the product has been graded according to definite standards. One qualification of a successful buyer is the ability to judge quality. One reason so many consumers are poor buyers is that they are unable to judge the quality of the goods purchased. The same quality shoes may be displayed in two windows at different prices but the consumer often buys the more expensive shoe because he supposes the quality is better. The price cutter picks a standard article for his advertisements for it is only on such an article that he can convince all buyers that they are getting bargains. The price of an unstandardized article varies widely to both buyers and sellers. Not so with a standard article dealt in on central exchanges. The price of No. 2 red winter wheat is almost uniform at any time. Buyers will pay little if any more than the published price and sellers will sell for little if any less than this price. As the risk is less, dealers can handle standardized goods on narrower margins. Standard-

ization is then beneficial to both buyers and sellers. Herbert Hoover has said, "If potatoes were standardized and sold on contract in a national market, protected from manipulation, three things would result. First, there would be a daily national price known to growers. Second, by the sale of a contract for delivery the grower would be assured of this price. Third, the contract and directions for shipment would flow naturally to the distributor where the potatoes were needed and thus the present fearfully wasteful system would be mitigated."[8]

Since standardization was necessary to future dealing the exchanges took the lead in prescribing definite grades and providing inspectors. Much of this work has been taken over by the state and national governments. There is a considerable difference of opinion as to how far standardization can be carried. Grains, cotton, canned goods, hay, butter, coffee and many other products have been fairly well standardized and the work of adopting standards for other commodities is going forward. It would be extremely difficult to adopt grades for highly perishable products for the reason that the quality depends very largely on the ripeness of the goods. Tomatoes, for example, might be one grade at noon and an entirely different grade in the late afternoon of a hot summer day. Something in the way of establishing definite grades can probably be done for all commodities but there are many products which could scarcely be graded carefully enough to permit future

[8] Writing in the *Saturday Evening Post* of April 10, 1920.

trading. Doubtless if other products had been standardized they would have been dealt in on exchanges.

Contract grades.—Contracts for future sale or purchase are made only by grade, the exchange prescribing which are the contract grades. The Chicago Board of Trade prescribes No. 2 red winter, No. 1 Northern Spring and No. 2 hard winter wheat. When the quantity of any particular grade is limited it is generally permissible to deliver other grades at definite differentials in prices. This is done to make it harder for anyone to "corner" the supply of any given grade. Cotton is divided into many grades, and an elaborate system is provided to show what differentials shall prevail when other grades are delivered. In Duluth, No. 1 Northern Spring constitutes the contract grade of wheat but No. 2 Northern may be delivered at 5 cents per bushel under the price of the former.[9]

Corners.—There should be a large quantity of an article in existence before it is traded in for future delivery. If there is only a small quantity available one dealer may contract with other dealers to deliver this article to him and then himself purchase the entire available supply. When the delivery date draws near the sellers find that this commodity is unobtainable except from the buyer who can name his own price. The buyer in such a case is said to have "cornered" the market. It is extremely difficult, if not impossible, to corner the supply of one

[9] Huebner, "Annals of Amer. Acad. of Polit. & Soc. Sc.," September, 1911, p. 8.

of the great staples, such as wheat, for the reason that the supply is too large. As the price rises in the central market wheat is drawn in from the surrounding country and sellers may also import it from abroad. If, however, the quantity of an article is small it can be cornered. To prevent this many exchanges have rules against cornering. It is just as possible to corner the actual supply of a commodity without exchanges as with exchanges.

Time of delivery.—Future sales are generally made for certain future months. For example in October future sales may be made for December, May and July. The seller has the option of making delivery upon any day during the month. He naturally chooses the time when he thinks he can buy the goods for delivery at the lowest price. If he waits until the last day of the month delivery must be made on that day.

Actual delivery.—From what has been said it is apparent that a future sale made upon an exchange contemplates an actual delivery of the goods. The buyer has the right to demand the delivery of the actual goods and the seller has the right to deliver the actual goods. As a matter of fact the actual goods are not delivered on most future contracts, the contracts being settled by the payment of the difference between the prevailing and the contract price. It is this fact that leads so many people to consider future trading as gambling. The amount of wheat sold for future delivery is many times the actual amount produced. This, however, does not alter the

fact that the contracts call for actual delivery of the goods and that such delivery is made when the buyer so desires. Delivery is made by warehouse receipts. It would, of course, be impossible to bring the actual commodities to the floors of the exchanges for delivery. The rules of the various exchanges specify the areas within which the goods must be located in order to be offered for delivery and also the type of receipts which must be accepted by the buyer.

Bucket shops.—Bucket shops on the other hand are gambling places pure and simple, where bets are made as to future prices. Actual goods are not handled and no deliveries made. Bucket shops are illegal and are broken up when discovered.

Speculation.—There is undoubtedly a good deal of gambling represented by transactions made upon the exchanges. The future trading in grain has for several years exceeded twenty billion bushels, five-sixths of which is done on the Chicago Board of Trade. The future sales of wheat are some twelve or fourteen times the average total wheat crop of the country.[10] A distinction should, however, be made between gambling and legitimate speculation. This distinction is hard to draw in practice but nevertheless exists. If the buyer expects to actually need and accept delivery of the product contracted for, the purchase does not vary in principle from the purchase made by a wholesaler from a manufacturer for the delivery of dry goods three or six months in

[10] See Federal Trade Commission: "Report on Grain Trade," vol. 5.

the future. If the seller has or expects to have the product sold and to make actual delivery the sale resembles the sale by a manufacturer to a dealer for the future delivery of goods which he expects to manufacture. It is furthermore much more certain that the contract executed upon the organized exchange will be scrupulously fulfilled than the contract made privately between manufacturer and dealer.

On the other hand if a future sale is negotiated on the exchange for the purchase of goods which the seller does not expect to need and which he merely hopes to resell at a profit, the transaction is closely akin to gambling. It is, however, no more like gambling than the purchase of a piece of land by a hard headed farmer which he does not need and merely hopes to resell later at a profit. The outsider who knows nothing of market conditions and decides to take "a flier" on the "strength" of a "tip" is undoubtedly a gambler. One of the greatest evils of organized speculation is that it is so easy for outsiders to speculate. The outsiders usually know little or nothing of market conditions and the chances are all against them. They come into the market and lose their hard earned savings. Trying to make easy money by speculation is opposed to industry and thrift. It takes money that should go to pay mortgages or buy better household furnishings. Something should be done to make it more difficult for such people—the so called lambs—to

speculate. Perhaps elimination of dealing on margins would do this.

Advantages of speculation.—If speculation on organized produce exchanges is admitted to permit certain serious evils why is it not abolished? The reason is that speculation has certain advantages and so far no plan has gained popular support which would eliminate the evils and retain the advantages. The advantages of speculation are hedging, the stabilizing of prices, the certainty of prices, and the equalization of prices between different markets.

Hedging.—Hedging is the name applied to transactions made upon the exchanges for the future sale or purchase of commodities to offset or balance dealings in the actual goods. For example, a country elevator buys wheat from the farmers which it expects to resell in the large terminal markets. If the price should fall while the wheat was in storage or transit the elevator would lose and if the drop was great the elevator might be ruined. To prevent such a loss the elevator resells the wheat on the exchange as soon as it is purchased from the farmers. It is then protected from loss and is sure of its legitimate profit for handling the grain.

The miller by hedging can protect himself from fluctuations in price and so be free to devote his undivided attention to milling and insure himself of the profit of his milling business regardless of fluctuations in prices. To illustrate, a miller in January sells flour for delivery in early June at a price based on $1.50 wheat, which is the quotation for May

wheat at the time the flour is sold. The miller may then buy the wheat for May delivery at $1.50. When May arrives he has his wheat at this price and as far as this transaction is concerned it makes little difference to him whether the price goes up or down. If it goes up he prevents a loss. If it goes down he loses the opportunity to make a profit. But he has eliminated the risk of fluctuations in price, which is what he desired. In actual practice the miller may not want the grade of wheat that would be delivered on his future contracts. He may desire to select his wheat from samples in order to choose the exact grades which he needs for blending. He can still eliminate most of the risk by hedging. He buys say 10,000 bushels of wheat for May delivery at $1.50. When May arrives let us suppose that wheat has advanced to $1.60. The miller has then made a profit of 10 cents a bushel on 10,000 bushels or $1,000. As he does not want this particular grade of wheat he takes his profit and buys the desired grade in the cash market. As all grades ordinarily advance in the same ratio the desired grades has also advanced approximately 10 cents, so he has to pay 10 cents more for it and so uses the $1,000 profit to pay the extra 10 cents. His profit offsets his loss on the wheat but he makes his ordinary miller's profit on the flour. On the other hand if the price had dropped the miller would lose 10 cents a bushel on his hedge, but would save 10 cents on the purchase of cash grain, and so would still have his legitimate miller's profit on the sale of the flour.

Mills instead of hedging sometimes take these risks of price fluctuations themselves. The buyer may feel that he is a good judge of market conditions and hence can anticipate the trend of prices. When he predicts correctly his mill makes large speculative profits, but when he guesses wrongly his mill loses heavily and may be thrown into bankruptcy by such speculative losses.

Advantages of hedging.—Hedging is an advantage because it enables dealers and manufacturers to shift risk to the shoulders of professional speculators or risk takers. The shifting of risk lessens the margins of gross profits which dealers must take. The greater the risk the greater must be the gross profit of the dealer. The dealer's gross profit is higher on millinery than on hardware, and higher on flowers than on groceries. The less the risk the smaller the margin on which a dealer will handle a product. The advantages of hedging are so well recognized that even hostile critics recognize its advantages and do not advocate its abolishment. They would abolish purely speculative business but would leave the exchanges open for legitimate hedging transactions.

Risk taking.—Risk is inherent in all business transactions. The merchant may buy goods which he cannot sell or prices may decline while the goods are on his shelves. The farmer sows wheat, but unfavorable weather may cut down his yield, or a slump in prices may cause him to sell his wheat at a loss. The manufacturer may have a strike or may develop products which the public will not buy. Some

risks can not be shifted to those whose business it is to bear risks viz. the insurance companies. The risks from fire, burglary, flood, employers' liability, tornado, lightning, rain, hail, automobile and railroad accidents, and some other contingencies can be covered by insurance. Most business men consider it good policy to cover insurable risks by insurance and it seems highly desirable that as many risks as possible be made insurable. The produce exchanges provide what might be called insurance against a change in price. When a risk can be insured against its cost can be measured and hence no large profit need be figured into cover this risk. Those granting insurance base their charges on an actual knowledge of the risks or on past experience. It appears to be much more economical to have risk borne by those who can average up risks in making their rates than to have a number of successive manufacturers and middlemen add large sums to their gross profits in order to protect themselves against possible losses. During the latter part of 1920 when prices were falling much was heard of cancelled contracts. Buyers of textiles, sugar, canned goods, dried fruits, and many other products very often refused to accept delivery of the goods contracted for. Serious losses were incurred by the sellers who had their contracts cancelled and by buyers who accepted delivery of goods bought at higher prices. If the men in these trades had been able to hedge their purchases and sales much less money would have been lost by the manufacturers and dealers, fewer contracts would

have been cancelled and much better feeling would have prevailed. This suggests that future trading might well be extended to other commodities, although in many cases such trading would be impracticable due to lack of standard grades or the small quantity of each product on the market.

Stabilization of prices.—It is argued by the advocates of speculation that it serves to stabilize prices. Without future trading it is argued that prices would go much lower when the market is glutted and much higher when the supply is small. Such stabilization of prices is highly desirable. In the fall when the crops are being marketed it holds prices up and so benefits the growers. In the spring and summer when the supply is getting low it holds prices down and so benefits the consumers. Although prices fluctuate widely upon the exchanges it is argued that they would fluctuate much more widely without the exchanges and future trading. In Russia where the grain trade was unorganized, the peasant farmers had no way of knowing the value of their grain and had to sell it to the local merchants, for what the latter were willing to pay. The merchants could not hedge their purchases and were uncertain what prices they would receive when the grain was finally gotten to the large markets. To protect themselves they paid the growers a very low price for the grain. It is said that the Russian peasant often received only from one-third to one-half of the price of wheat in the large markets compared with 90 per cent received by the American farmer.

To understand how this result is accomplished it is necessary to understand what is meant by "short" and "long" trading. A short sale is a contract to deliver something not in the possession of the seller in the expectation of being able to buy it for delivery at a lower price than it has been sold for. The manufacturer who sells 10,000 yards of cloth for delivery six months from date has sold short. He expects to produce the cloth at a cost below the selling price and so make a profit on the sale. The man who contracts to supply an army camp with 1,000 bushels of potatoes in the expectation of going out in the country and buying them at lower price has sold short. Just so the trader on the exchange who sells 10,000 bushels of wheat for delivery six months in the future does so in the expectation that the price of wheat will drop so that he can buy the wheat for delivery at a lower price than he sold it for. The short seller is commonly referred to as a "bear" and a falling market as a "bear" market.

The "long" trader is one who buys a commodity to hold it for an increase in price. The man who buys real estate, pig iron, coal, flour, canned goods, silk, sugar or any commodity to hold it for an increase in price is dealing on the long side of the market. The public understands little of short sales and when it speculates nearly always deals on the long side of the market. The "long" trader is commonly referred to as a "bull" and a rising market as a "bull" market.

The professional traders in forming their opinions

as to the trend of prices consider all the known factors affecting supply and demand. In the case of wheat they consider the conditions of the crop in all producing countries, the acreage planted, the amount carried over from last year, the visible supply, the probable amount still in the hands of the growers, the export demand from all importing countries, and the rate at which the domestic mills are purchasing. They thus form their opinions as to probable conditions in the future and buy and sell accordingly. As the crop conditions are affected by the weather the prospects may change materially in a short time. The report of rust in Saskatchewan may cause a violent increase in price, while the news of rains in Argentina may cause a drop in prices. The news of an impending war may send prices up as the armies will need wheat. Prices are also affected by the general industrial and financial situation. Different traders attach different importance to the same report. One trader considers a certain bit of news important while another trader overlooks it entirely. One trader considers himself better informed as to actual conditions than others. Hence a difference of opinion as to future prices and hence future trading.

The farmers at times object bitterly to short selling, saying that it is equivalent to creating a large additional supply and hence helps to depress prices. They forget that the long buying similarly creates an additional, if ficticious, demand and hence helps to boost prices. If the price goes below what the

traders consider the probable future price they are always ready to buy. This prevents prices going as low as they otherwise would. This speculative buying at low prices acts as a cushion for falling prices. With commodities not subject to future trading this cushion is absent, hence prices may fall much lower than they would if future trading were possible. In most commodities it is extremely difficult to speculate on the short side of the market. Hence practically all speculators are on the long side of the market and when prices are rising speculation tends to force prices up to excessive levels. Then when the break comes short selling is impossible. No one wants to buy in a falling market and hence prices drop, and drop until they reach extremely low levels with resultant loss to all owners of goods. With commodities subject to future trading when the prices go above what the traders consider warranted by the facts they begin to sell. This selling, checks the rising prices. This alternate buying and selling by the traders is what is supposed to stabilize prices.

Many studies have been made that indicate that speculation on the organized produce exchanges does actually tend to stabilize prices. The skeptics on the other hand contend that these studies are inconclusive, that the exchanges do not prevent manipulation of prices, and that they do not exert any marked tendency toward stabilization of prices. The Federal Trade Commission, which has made a most exhaustive study of the entire grain trade, does not seem to be entirely convinced that speculation does tend to sta-

bilize prices. On this point, it says: "While the Commission believes that speculation in wheat futures is not an indispensable part of the marketing process and may sometimes be highly injurious, the future contracts may have a legitimate use for 'hedging.' In this connection it is claimed that future trading performs an insurance function where ordinary insurance methods would not be practicable, and that undue restriction of future trading, such as would deprive the grain trade of this service, might result in grain dealers requiring larger margins and consequently result either in lower prices to the farmer or higher prices to the consumer. Without now expressing an opinion on this subject, it appears that there is a large volume of future trading that is mere gambling, and involves a great economic waste."[11]

Certainty of prices.—Whether speculation does stabilize prices or not it greatly increases the certainty of prices. It enables all interested parties to be much more certain as to what prices will be in the future and as to what changes in prices may be expected. This is a decided advantage.

Equalization of prices between different markets.—Organized exchanges tend to make prices uniform over a wide area. If the price of wheat is higher in Chicago than in New York traders will buy in New York and sell in Chicago. If the Liverpool price is higher than the Chicago price by more than enough to pay freight, insurance and

[11] Letter of Federal Trade Commission to the President, December 13, 1920.

exchange costs of getting the wheat to Liverpool traders will buy in Chicago and sell in Liverpool. In this way prices are equalized except for transportation costs in all markets having exchanges. This enables the western farmers to get the full Chicago or Liverpool price for wheat less the costs and dealers' profits incurred in getting it to Chicago or Liverpool. It also insures the English consumers of getting wheat at the Chicago price plus cost of getting it to England. This is a great advantage as compared with products having local prices. With the latter class of products prices may be very high in one market, while in another market the goods are rotting for lack of buyers.

Benefits of marketing system to farmers.—As a result of standard grades, public prices, efficient elevators and organized exchanges the American farmers are said to receive a much larger percentage of the price paid by the consumers for their grain than for the products not handled by organized exchanges. The farmers' cooperative grain marketing organizations seem to appreciate the advantages of the exchanges and instead of abolishing them are demanding membership in them so that they can sell their own grain directly on the exchange floors.

Proposed remedies.—There are admitted to be many evils connected with the produce exchanges. Some have proposed that all future trading be abolished. Germany at one time (law of 1896) prohibited future trading but failed to realize the expected benefits from the change and so rescinded the prohi-

bition. Senator Capper proposes in a bill introduced in the Senate in December 1920 to put an end to all gambling by placing a tax of 10 per cent on the value of all property covered by contracts for future delivery except contracts made by farmers, dealers or manufacturers for actual delivery. The object of this bill was very fine but if such a tax were enforced it is probable that trading would be so restricted that the market would become too narrow to afford satisfactory facilities for hedging. The enforcement of such a provision might in effect abolish all future trading. Speculation or "playing the market" by outsiders in the hope of making easy money is an evil that should be stopped. Weld suggests that brokers be prohibited from soliciting speculative orders from outsiders and that all brokers be licensed and their books be made subject to inspection by public authorities.[12] A more drastic remedy would be to prohibit all marginal dealings. Most speculative transactions are carried on a margin. That is the buyer or seller puts up the required margin, say 10 per cent, with the broker—who places the order and provides whatever additional capital is needed to finance the transaction. The prohibition of marginal dealings would certainly stop most of the speculative transactions by outsiders.

Much has been done to improve conditions by regulations of the exchanges and by state and national laws, such as the Cotton Futures Act, but many

[12] Weld, L. H. D.: "Marketing of Farm Products," p. 359.

evils still exist. So far no plan seems to have been proposed which would abolish the evils and retain the desirable features of the system. It seems certain that the exchanges themselves are powerless to make adequate reforms for the reason that their members, the brokers, receive a large part of their commissions for handling purely speculative orders for others.

Conclusions.—It has been impossible in the space available in a book of this nature to cover all the aspects of the produce exchanges and speculation. No attempt has been made, for example, to describe the actual methods in which sales are made and financed, or to give any detail as to how the commodities are handled and inspected. This chapter only attempts to describe briefly the more important operations of the exchanges and to outline a few of the problems involved in organized speculation. It is hoped that the reader will continue his study by consulting some of the references listed below:

BIBLIOGRAPHY

American Academy of Political and Social Science: "American Produce Exchanges," 1911, vol. 38. This volume is now somewhat out of date but contains one of the best collection of articles on the produce exchanges.

Weld, L. H. D.: "The Marketing of Farm Products," chs. 13-17, inclusive.

Brace, Harrison H.: "The Value of Organized Speculation" (Hart, Schaffner & Marx prize essay).

Atwood, Albert W.: "The Exchanges and Speculations," chs. 13-20, inclusive. Published by the Alexander Hamilton Institute.

Federal Trade Commission: "Report on the Grain Trade," 5 volumes. Also letter to the President of December 13, 1920, in response to President's direction to inquire into the wheat situation.

United States Bureau of Corporations: "Report on Cotton Exchanges."

Boyle, Jas. E.: "Speculation and the Chicago Board of Trade."

Emery, Henry C.: "Speculation on Stock and Produce Exchanges of the United States," Columbia University Studies in History, Economics, and Public Law, vol. 7 (1896).

Huebner, Grover G.: "Agricultural Commerce," chs. 3, 4, 6, 7, and 14.

Usher, Abbot, Payson: "The Influence of Speculative Marketing Upon Prices," *American Econ. Review,* March, 1916 (vol. 6, No. 1).

McHugh,: "Form, Development, and Economic Functions of Grain Exchange," Annals of the Amer. Acad. of Polit. & Soc. Sc., vol. 33, pp. 1-35.

Duncas, C. S.: "Marketing," chs. 7-11.

Cherington, Paul T.: "The Elements of Marketing," ch. 10 (on risks).

Hoover, Herbert: "Some Notes on Agricultural Readjustment and the High Cost of Living," *Saturday Evening Post,* April 10, 1920.

Hearing before Committee on Rules of the House of Representatives, 63d Congress, second session, 1914, on the charge that the Chicago Board of Trade Controls Price of Wheat to the Farmer and Price of Flour to the Consumer.

Anderson, B. M., Jr.: "Factors of Safety When Prices Drop," the *Chase Economics Bulletin,* December 1, 1920, pp. 23-29. Published by the Chase National Bank.

Annual Reports of the Secretary of the Chicago Board of Trade.

New York Produce Exchange Bulletin.

Price Current Grain Reporter.

The Nations Business: "Should We Smash the Exchanges," December, 1920.

Chicago Butter and Egg Board, et al., Action Brought Under the Sherman Law, 1914.

Usher, Abbot, Payson: "History of Grain Trade in France," 1400-1710.

Legg, Chester, Arthur: "The Law of Commercial Exchanges."

Siebels, Wm. Temple: "Produce Markets and Marketing."

QUESTIONS—CHAPTER VIII

1. Distinguish produce exchanges from auctions, farmers' markets, and bucket shops.
2. What was the origin of the produce exchange.
3. Define spot and future sales. Which is the more often used for speculative purposes? Why?
4. Enumerate the advantages and disadvantages of speculation on organized exchanges.
5. Show how hedging enables risks to be shifted. Does this cheapen the cost of marketing? Why or why not?
6. Can you draw a line between speculation and gambling?
7. Does speculation tend to stabilize prices? If so, how? If not, why?
8. Are the produce exchanges beneficial to the farmers? To the consumers? Why or why not?

Chapter IX

THE DEVELOPMENT OF RETAIL TYPES AND METHODS

Importance of retailing.—A retail dealer is one who buys goods for resale without alteration to consumers. Concerns that buy goods for alteration may also sell them at retail, e. g. restaurants or manufacturers selling direct to the consumers. Retailing is the most familiar kind of selling and the retailer is the most widely known type of middleman. Many goods pass through the hands of no other middleman as for example shoes sold direct to the retail dealers by the manufacturer and vegetables in towns where the retailers obtain their supplies direct from the farmers. There are over two million people engaged in the retail business and there are about one million retail stores in the United States.

THE EVOLUTION OF RETAIL TYPES

Fair and markets.—Retailing is the oldest type of marketing, having its origin in the barter of primitive peoples. With the development of trade came the custom of meeting at certain times and places for the purpose of buying, selling, and exchanging goods. Here we see the origin of the fairs, market days, and market places which are still important in many parts of the world. The fair was originally a place where

buyers and sellers met for the transaction of business. The actors and other entertainers came to amuse the crowds. In the United States the sale of goods has been very largely eliminated and the fairs consist principally of amusements and exhibits, although many concerns will accept orders for goods received as a result of the exhibits. In many countries, especially those somewhat backward in the commercial development, the fairs are still very important in the marketing of goods. This was true, for example, of Russia prior to the world war.

Itinerant merchants.—It was, however, impossible for everyone to visit these fairs or market towns for the purchase of goods. The itinerant merchants visited these markets or fairs and purchased goods which they carried through the country selling to the people in their homes or bartering them for goods which they could dispose of to advantage at the market town or fair. This method is still used in some primitive countries as for example in Abyssinia.[1]

Modern types of the itinerant merchant are furnished by the peddler, the huckster, and the canvasser. The peddler is still found going from door to door in our cities and in some rural sections. In some cases merchants have fitted up almost complete stores on motor trucks and supply their customers at

[1] It is interesting to compare the marketing methods in Abyssinia with those in the United States. For description of methods in Abyssinia, see United States Department of Commerce, Bureau of Foreign and Domestic Commerce, miscl. series No. 81, "Selling in Foreign Markets," pp. 226-230.

their doors. The Jewell Tea Company, Inc., furnishes an example of a company selling from house to house on a large scale. This company sells coffee, tea, baking powder, soap, etc., under its own brands from wagons operating over 20,000 different routes operating from 530 branches. The huckster is notably important in the sale of fruits and vegetables. Many of them have regular routes and carry first class goods. They allow the housewives to personally select their goods at their own doors. The hucksters are important in disposing of goods that must be sold quickly to prevent their spoiling. They buy such goods cheaply in the wholesale markets and dispose of them quickly to the consumers at reduced prices. They thus give the wholesale dealers an outlet for such goods, prevent the goods from spoiling, and enable the housewife to get cheaper goods for canning or table use.

The canvasser or specialty salesmen may sell anything from books to locomotives. They are important in the sale of household goods, adding machines, typewriters, life insurance, etc. Such salesmen may be used to create a demand for new goods, to effect sales in a highly competitive market, to handle goods that are too highly specialized or too large to be handled by the ordinary dealers, or to handle goods appealing to only a small class of buyers. Salesmen in this class range all the way from the ordinary "agent" who succeeds through dogged perseverance to some of the shrewdest and most highly trained salesmen in the country.

Specialty stores.—With the development of civilization came a division of labor. Certain men came to devote the greater part of their time to the production of one thing, e. g. cloth, or shoes—and to exchange or sell the surplus in order to obtain other things needed by them. At first the consumers visited the shops where the goods were produced to make their purchases. Here was the origin of the "shop" as a place to make purchases and also of the term to "go shopping." The amount of goods produced increased more rapidly than the demand for such goods so that the producers had to go out to find purchasers for their wares. This took time and interfered with their regular work of production. It was a natural development for several neighbors to turn the sale of their surplus product over to one of their number who possessed a knack at selling. As this man's selling business increased he stopped working as an artisan and devoted his whole time to selling and what had formerly been his workshop became his store. As these men sold only one kind of merchandise they were specialty merchants and their shops specialty stores. The specialty store is thus older than the general or department store.[2]

The traveling salesmen.—Traveling salesmen have not always called upon the retail dealers to solicit business. The retailers formerly went to market—Boston, New York, Philadelphia, Baltimore, Cincinnati, St. Louis, Chicago, New Orleans and

[2] See Nystrom, Paul H.: "The Economics of Retailing," ch. 2.

smaller jobbing centers—once or twice a year to buy their goods. The first wholesalers were the exporters and importers. In England these foreign trade houses had developed organizations for gathering domestic merchandise for export and for distributing imported goods. With the development of the factory system separate wholesalers and commission houses came into existence. With the increase in the quantity of goods competition became keener and the wholesalers employed men to "drum" up trade by inducing the retailers to visit their stores. The "drummers" at first met the country merchants at the hotels and by "being good fellows" tried to establish friendly relations. As competition got keener the drummer took to the road, called upon the merchants in their stores, and tried to secure their friendship and their promises to visit his employer's wholesale store on their next visit to town. They soon came to take orders for goods and so developed into traveling salesmen. The traveling salesmen really came into existence in the decade preceding the Civil War although prior to this time some wholesalers had sent out men to make collections and secure credit information. Such men were first employed in the years following the panic of 1837. There were relatively few traveling salesmen prior to the Civil War. The total number in the United States in 1861 was said not to exceed 1,000.[3]

General stores.—The general store developed in the United States from the old trading post. When

[3] Briggs: "Fifty Years on the Road."

the country around the post was settled the settlers came to the trading post for their supplies and it was, therefore, necessary for the post to carry a variety of goods to meet the demands of its customers. As the country was at first sparsely settled there was in many communities only trade enough to support one store and hence this had to be a general store. Although the specialty store was introduced into this country from England a great many specialty stores seem to have developed from the general stores or to have been started in competition with the latter. As the population of a community increased a village or town might support several stores. Some of these stores might drop certain lines of goods which proved relatively unprofitable or new stores might be started to handle only one line of goods—groceries, drugs, or dry goods. Competition from these specialty stores often forced the general stores to drop certain lines and to increase their stock in other lines so as to be able to compete with the specialty stores. In this way many general stores were forced out of existence or transformed into specialty stores. In small towns general and specialty stores often exist side by side but as the town grows the general stores eventually disappear. The general store is, however, still common in the rural districts and in the more sparsely settled sections is still the prevailing type. It is especially important in parts of the South and the West.

Department stores.—The majority of department stores have apparently developed from the specialty

dry goods stores. It is not entirely clear as to just when and where the first department store was started in the United States. The Bon Marché in Paris is credited by some authorities as being the first real department store. The idea was soon copied in the United States and the Jordan Marsh store in Boston is credited by some with being the first American department store. Others credit S. S. Houghton, a general merchant from New Hampshire, together with his brother-in-law, R. H. Macy, with starting the first department store on 14th Street in New York City, in 1858. Mr. Houghton's idea was to start a country general store in the city. About 1870 he removed to Boston and opened a department store in partnership with B. F. Dutton.[4] Other department stores originated in the consolidation of several specialty stores previously conducted separately under one roof. The years following the panic of 1873 really marked the beginning of department stores as an important factor in the retailing business in the United States.[5]

The large department stores were made possible by the growth of large cities and the development of rapid transit facilities. With the falling prices following the Civil War new methods of retailing were necessary. Merchants could no longer make money by keeping goods. In order to continue to make profits the shrewder merchants attempted to buy

[4] Cherington, "The Wool Industry," p. 225, quoting from Corset and Underwear Review of February, 1914.

[5] See Nystrom: "Economics of Retailing," pp. 246-249.

goods cheaper and to buy directly from the manufacturers. Prices were reduced, percentages of gross profits lessened and net profits realized from quicker stock turnovers. Advertising was employed to draw customers to the store and a higher type of service rendered in order to satisfy the customers. The department stores led in the introduction and development of these methods. Much of the growth of the department stores has apparently been based on bargain sales and cut prices. The convenience to the public of centrally located stores where all the needs of the family could be purchased under one roof and on one line of credit has also contributed much to the growth of the department stores. In recent years "service" has come to be more emphasized, although "price" is still stressed by most stores.

Mail order houses.—The development of the American railroads gave the country quick, safe and cheap transportation and made possible the development of the mail order method of doing business. The mail order houses obtain most of their business from the rural districts. Until quick and cheap methods of transportation were available the rural population could buy goods from distant cities only on rare occasions and at considerable expense. It was therefore necessary for them to buy from the local merchants what goods were not produced at home. The development of the mail service and the increase in the circulation of periodicals made possible wide spread advertising. The growth of the mail order houses is based to a very large extent on large

scale advertising. With the growth of education and the extension of the reading habit came a desire for more and better goods. With an increased prosperity came a demand for a wider selection and a better quality of goods than were available at most of the country stores. The mail order houses really developed to supply this demand.

Another factor contributing to the growth of mail order selling was the great increase in the quantity of manufactured goods. When the manufacturers failed to find a satisfactory outlet for their goods through the regular trade channels they were willing to sell the consumers direct or supply goods to the mail order houses.

The oldest of the large mail order houses is Montgomery Ward & Co., which started in Chicago in 1872 to serve as a supply house for the farmers' granges, — cooperative organizations of farmers whose correct name was The Patrons of Husbandry.

Chain stores.—The phenomenal growth of the chain stores during the past fifteen years has been the most outstanding fact in the field of retail merchandising. Acker, Merrall & Condit began business in 1820, and Park & Tilford in 1840. Both of these concerns now operate grocery chains in New York City, but did not become chains at once. Park & Tilford opened their second store in 1866. The Great Atlantic and Pacific Tea Co., was started in 1859, The Jones Bros. Tea Co. in 1872, and the F. W. Woolworth Co. in 1879. It was not, how-

ever, until after 1900 that the chain stores began their rapid growth.

Some of the chains grew from individual stores, the proprietors starting additional stores as their capital permitted. In other words, successful merchants used a part of their profits to start branches and when these branches became numerous enough they were called "chains." Until a few years ago, many successful merchants tried to expand their business by increasing the size of their original stores. Experience, however, seems to indicate that efficiency can be maintained better in several small retail units than in one large one. It appears that many chains formed by the expansion of retail stores have been successful, while corporations organized to establish chains of stores have often failed. Other chains have been started by manufacturers to furnish outlets for their goods.

Some of the chief reasons for the rapid development of the chain stores have been their low prices during a period when the cost of living was on the increase; the convenience of the location of their stores to the public; and the efficiency of their management.

The low prices have been made possible by the fact that most of the chain stores have operated on an "economy" basis and that their size has enabled them to buy direct from the manufacturers and eliminate the jobbers' profit.

The self-serve stores.—A still further movement toward the reduction of operating expenses is seen in

the establishment of self-serve stores. We have been familiar with the self-serve lunch rooms and cafeterias for some time. The "grocerteria," established some five years ago in Inglewood, Calif., was one of the first self-serve grocery stores to attract attention. There were, however, self-serve stores before this, as, for example, The Help Yourself (men's clothing) Store in Pittsburgh. One of the best known chains of self-serve stores at the present time is the Piggly Wiggly Stores, Inc. The first of these stores was opened in Memphis, Tenn., on September 12, 1916. The number grew very rapidly, over 500 stores being opened prior to September 1, 1920. These stores reduce the number of salesmen needed to do a given amount of business. The company claims that the average expense of doing business is less than five per cent of sales.

CHANGES IN RETAIL METHODS

Conditions prior to Civil War.—The methods of conducting retail stores have changed in many respects during recent years. Prior to the Civil War the general and specialty stores had the field to themselves. Mail order houses and large department stores were unknown. There were relatively few manufactured goods and the stores were not forced to carry as wide a variety of goods as at present. The needs of the people were few, compared with present standards. Styles seldom changed and goods could be kept for several years with little danger of going out of style. There were few traveling

salesmen and the merchants went to market once or twice a year to purchase their merchandise. The stores served as social centers to a larger extent than at present. Speaking of the general store, Nystrom says: "It was frequently the location of the post office, and served as the village social center for the men. The old box stove, the rickety chair or two, the nearby barrels, and the sawdust spit box, were the most universal furnishings that equipped it, for its social services. Here politics religion, and neighbors were discussed. It may not be too much to say that here the tariff question, the government bank, internal improvements, foreign policies, and other important government matters were ultimately settled. Certainly statesmen had to reckon with the forces of public opinion generated and cultivated around the stove of the country store."[6]

For several years prior to the Civil War prices were rising. Goods not sold would be worth more next month or next year. It might be more profitable to keep the goods than to sell them. Hence the expression "keeping store" and "storekeeping" was often more or less of a lazy man's occupation.

Higgling over prices. — Very few storekeepers marked their goods with plain prices and the one price plan was almost unknown. Buying was a matter of bargaining or higgling over price. When the price was stated by the seller, the buyer would offer a figure considerably lower and would try in every

[6] Nystrom, Paul H: "The Economics of Retailing," pp. 23 and 24.

way to make the dealer "come down." The price agreed upon might be considerably lower than the price first asked by the merchant. The relative bargaining ability and perserverance of the two would exert a considerable influence on the price actually paid in the end.

Introduction of one price plan.—One of the first prominent merchants to introduce the one price plan and mark his goods in plain figures was John Wanamaker who introduced the principle in his store in Philadelphia in 1876. Since this time the one price plan has come into general use in many retail stores but its use is even yet by no means universal. There are many stores which do not mark their goods in plain figures and who are not adverse to "cutting" a price when necessary to make a sale. This practice seems to be more prevalent in the sale of goods of relatively large value per unit, e. g. clothing.

Changed methods due to falling prices.—Following the Civil War there ensued a period of falling prices. The trend of prices was downward from 1865 to 1895 with the exception of a few years in the early eighties. The retailers had to make their profits by selling goods not by keeping them. If goods were kept for any length of time they would be worth less than when purchased. This led to quicker stock turnovers and the carrying of smaller and better assorted stocks of goods. The traveling salesmen made possible more frequent purchases, which meant that goods could be purchased in smaller quantities. Intelligent merchants have

come to realize that profits cannot be made by keeping money tied up in goods which are not moving. If a loss must be taken the quicker it is taken the better, for the longer it is postponed the larger it is likely to be. Intelligent merchants keep reducing the prices of slow moving goods until they are sold. The policy is now generally recognized as good merchandising and yet there are still merchants who will carry goods in stock indefinitely rather than sell them below the original purchase price.

Increase in manufactured goods. — During the past sixty years the quantity and variety of manufactured goods have been constantly increasing. Factory made goods have taken the place of goods formerly made in the home. For example, ready made clothing for both men and women in place of garments made by the housewife; canned goods in place of home canning; baker's bread in place of baking days; factory shoes in place of those made by the local cobblers; creamery butter in place of the frequent churnings, etc. Many entirely new articles have been manufactured and come into common use. For example, talking machines, kodaks, typewriters, adding machines, breakfast cereals, all kinds of electrical appliances, plumbing supplies, automobiles and accessories, etc. This increase in the quantity and variety of manufactured goods has meant that the retailers have been called upon to carry a wider variety of goods. This has meant greater care in selecting goods and making purchases as a smaller quantity of each article can be carried

in stock. This can only be done by frequent purchases of small quantities of the various articles. New stores have been called into existence to handle new kinds of goods as the electrical shop and the automobile accessory store, while the modern drug store has furnished an outlet for many of the newer articles.

Rapid changes in style.—Another change that has affected retail methods has been the rapidity with which styles change. The change in styles is especially rapid in clothing and dealers handling women's clothing are especially affected by it. The type of merchandise carried by all classes of dealers is however subject to change by changing methods of living, new inventions, etc. For example the automobile has largely eliminated the demand for hammocks. The spread of information on sanitation has created a widespread demand for fly screens. The installation of electric lighting plants by the farmers has caused a falling off in the demand for fancy oil lamps but has given the rural merchants a demand for electric lamps and other electric appliances. The rapidly changing styles mean that the dealers must use greater judgment in selecting their goods, and must buy in smaller quantities. The risk involved is increased as poor judgment in forecasting demand may mean a large loss. Merchants do not like to carry style goods over from one year to another and this fact partly explains the large price reductions in end of season sales. From 1895 to the spring of 1920 prices were

increasing yet few of the better merchants liked to carry goods over from one season to another. Not only is the capital involved inactive but there is a considerable risk of change in style.

Waste of changes in style.—The greater the style risk the larger must be the retailers mark-up. Compare for example, the percentage of mark-up made by the retailer on heavy hardware or staple groceries with that realized on millinery. The consumers must pay for the rapidly changing styles. The rapid change in styles involves a serious economic loss. Not only are the prices of style goods high but the goods are discarded before they are worn out. This means that labor and raw materials are constantly being used to produce new goods to replace those discarded. This labor and these raw materials could be used to better advantage in producing goods to satisfy other and more important wants. Some economists and sociologists have been advocating the standardization of clothing to prevent rapid changes in style but so far their efforts seem to have been unsuccessful. Changing styles seems to have become a national habit. Some dealers have encouraged style changes in order to increase their sales. From a broad economic view point such a policy is indefensible. It must, however, be remembered that the retailer supplies rather than creates demands and that the changes in the style, type, or kind of merchandise demanded by the consumers is a fact that all retailers must consider in the conduct of their business.

Small size of purchases.—Consumers now buy merchandise in much smaller quantities than formerly. People living in towns and cities now seldom lay in a winter's supply of apples, meat, flour, or potatoes. In the modern apartment houses there is very little space to store supplies. Many families now buy goods from day to day as needed. This method of small quantity buying means more work for the retailers, more salesmen, deliverymen, and bookkeepers are required to handle an equal volume of goods. This fact should be borne in mind when comparing the services rendered by the present day retailers with their predecessors of a half century ago.

Increase in competition. — Another change has been the increase in competition in the retail field. The general stores and individually owned specialty stores no longer have the field to themselves. They are faced with competition from the department stores, the mail order houses, the manufacturers selling direct to the consumers and the chain stores. This competition has forced the retailers to furnish a higher type of service to the consumers or to sell at lower prices. The department stores have, in recent years given much emphasis to service. The motto that "the customer is always right" is no longer unusual. The chain stores have generally emphasized price and have given little delivery or credit service. The buying public is beginning to understand that the price paid for goods covers not only the physical cost of goods but the services ren-

dered by the dealer. With the various types of stores now in existence the urban public can to a large extent take its choice of purchasing much or little service. The future of the department and chain stores may depend largely on the preference of the public in this regard.

BIBLIOGRAPHY

Butler, Ralph Starr: "Marketing Methods," chs. 4, 5, 6, and 8.
Nystrom, Paul H.: "The Economics of Retailing," chs. 1, 2, 3, and 4.
Douglas, Archer W.: "Merchandising."
Briggs: "Fifty Years on the Road."
Farquhar, A. B.: "My Sixty-four years in Business," articles published in *System,* during 1920 and 1921, commencing Aug. 1920.
Rosenwald, Julius: "What we have Learned from 6,000,000 Customers," *American Magazine,* July 1920, p. 34.

GENERAL BIBLIOGRAPHY ON RETAILING

Some of the best information on the various aspects of retailing is found in the various business and trade papers. The student of retailing should read as extensively in such papers as his time permits. Among such papers might be mentioned; *System, Printers Ink, Journal of Commerce, Retail Public Ledger, Dry Goods Economist,* etc.
Nystrom, Paul H.: "The Economics of Retailing."
Nystrom, Paul H.: "Retail Store Management."
Nystrom, Paul H.: "Retail Selling and Store Management."
Butler, Ralph S.: "Marketing Methods," Chapters 5-10.
Alexander Hamilton Institute: "Marketing and Merchandising," Pt. I, Chapters 8-11; Pt. II, Chapters 4-7.
Federal Trade Commission: "Causes of High Prices of Farm Implements." Chapters 1, 2, 5 and 6.
Cherington, Paul T.: "The Elements of Marketing," Chapters 10-18.
Cherington, Paul T.: "The Wool Industry," Chapter 15.
A. W. Shaw Co.: "Shaw Retailing Series."
Ivy, Paul W.: "Principles of Marketing," chs. 5-9
Harvard Bureau of Business Research: "Bulletins."

Whitehead, Harold: "The Rexall Course in Salesmanship."
Weld, L. H. D.: "The Marketing of Farm Products," Chapter 20.
Frederick, J. George: "Modern Sales Management," chs. 27, 28, and 29.
"Costs, Merchandising Practices, Advertising and Sales in Retail Distribution of Clothing," Bureau of Business Research Northwestern University. Now being published by Prentice-Hall, Inc.
Parlin, C. C.: "The Merchandising of Textiles."
Swinney, John B.: "Merchandising."
Ronald Press Company: "Merchandizing Manuals."
Hotchin, W. R.: "Making More Money in Storekeeping."

CHAPTER IX—QUESTIONS

1. What was the origin of the specialty store? Of the general store? Of the department store?
2. What made possible the development of mail order selling? Why have the mail order houses grown so rapidly?
3. Why have the chain stores grown so rapidly since 1905?
4. Contrast retailing methods of the present with those of 1850.
5. Why is there less higgling over prices than formerly?
6. How has the increase in the quantity and variety of manufactured goods affected retailing?
7. Why do styles change so rapidly? Is this desirable? If not, how can such rapid changes be prevented?
8. Why do the consumers buy in such small quantities? Is this a desirable practice from the standpoint of the consumer? Why or why not?

Chapter X

RETAIL TYPES

In the last chapter we discussed the evolution of the various types of stores and their methods of doing business. In this and the three following chapters the present status of the various types of retail stores will be discussed.

1. THE GENERAL STORE

A general store carries the various classes of goods commonly used by its patrons. It differs from the department store in its organization rather than in the lines of goods handled. The classes of goods handled by a general store vary with the needs of the people from one section of the country to another, but groceries, hardware, and dry goods are practically always carried and a very large part of the general stores also handle shoes, clothing, hats, and farm implements.

Still important.—It was stated in the last chapter that the general store was losing business to the mail order houses and was being replaced in many places by the specialty stores. It must not be supposed, however, that the general store is a thing of the past. There are from 150,000 to 175,000 general stores in the United States. The general

store is the second most numerous class of stores, being exceeded in number only by the grocery stores.

Inability to carry assorted stock of goods.—One of the chief reasons why the general store has been losing business to the other types of stores has been its inability to carry as well an assorted stock of goods as its competitors. Having to carry many classes of goods and yet having a relatively small volume of sales it has been impossible for the general store to carry as complete an assortment of each class of goods as could be done by the respective specialty stores, handling the various classes of goods. The large mail order house could offer a wider selection of goods than the general store. The general merchants very often failed to realize that their customers were demanding a wider variety and a better grade of merchandise and so often did not seriously attempt to improve the quality and variety of their stocks.

ADVANTAGES OF THE GENERAL STORE

The general store has several advantages when compared with the specialty stores, mail order houses, and department stores.

Convenience of its location.—The convenience of its location gives the general store a distinct advantage in the sale of those necessities and standard goods which people buy frequently and in small lots. Its location means that delivery is quicker and that adjustments and exchanges can be made easily.

Personal contact.—The general merchant has a personal contact with his customers. This is a very important advantage but one that many merchants fail to fully capitalize. This personal contact gives him the opportunity to render personal services, to employ personal salesmanship, and to make friends.

Can base credit on exact knowledge.—The general merchants have such an intimate knowledge of their customers that they can base extensions of credit on almost exact information. This enables them to render very valuable services to their customers through the extension of credit with the minimum of risk to themselves.

Low operating expenses.—The general merchants have a low cost of doing business. Their stores are located on cheap land which means low rent or a low investment in land and building together with low taxes and depreciation. The general stores are generally situated where the cost of living and wages are low. The cost of doing business varies widely from one store to another but the average for the general merchants was 15 per cent in 1915 and slightly over 13 per cent in 1918.[1] The decrease in the percentage was due to the increased prices of the goods sold as the actual average expenses increased. Although some classes of rural merchants have slightly lower percentages of expenses, the expenses of the general merchants are ordinarily lower than those of the city department or

[1] Federal Trade Commission Report on "Causes of High Prices of Farm Implements," 1920, p. 260.

specialty stores handling similar lines of goods and very probably lower than those of most mail order houses.

DISADVANTAGES OF THE GENERAL STORE

The general store has three notable disadvantages as compared with other types of retail stores.

Small stocks.—The general store is unable to carry a large and widely assorted stock of goods and consequently is unable to supply all the demands of its customers.

Small buying power.—Due to the necessity of purchasing goods in small quantities the general merchant is unable to secure quantity discounts or to buy on the most advantageous terms.

Location poor for shopping trade.—The third disadvantage grows out of the location of the general stores in the village or at the country cross roads. Such locations are excellent for the sale of necessities or "convenience" lines but are very poor for the sale of "shopping" lines. When people want to select clothes, stoves, furniture, or any of the various other articles coming in the class of shopping goods, they want "to look around." They want to go to the city or to a town having at least three stores, where goods can be examined and prices compared. This is especially true of women and it must be remembered that women are coming to buy a very large part of the merchandise sold by retail stores. Even if the cross roads store carries the identical article eventually purchased, many peo-

ple will still go where they have the opportunity of inspecting more goods prior to making the purchase.

Inefficiency.—The general merchants have often failed to fully utilize or exploit their advantages. Much of their loss of trade has been due to their inefficiency and their failure to keep abreast of ever changing conditions. Very often they do not make the proper selections of stock. As previously pointed out, in the past they often failed to realize that the farmers were demanding a better grade of goods and newer types of merchandise, while they continued to carry only the old familiar goods. Very few of them have an adequate accounting system and hence can only guess as to where losses occur and where profits are made. The absence of accurate records makes it difficult, if not impossible, to adopt a proper "mark-up" policy, the selling prices often being arrived at in the crudest of ways.

The poor management or inefficiency of the general stores is not inherent and perhaps as a class the general merchants are no more inefficient than some other classes of retailers. When a general store is efficiently managed its chances of success are as good as those of many other types of stores.

Other rural stores.—There are many rural stores which have the same problems as the general store and yet which are not general stores. Many of these handle two or more entirely separate lines of merchandise and so can hardly be classed as specialty stores. The lines of goods handled by such rural stores vary widely. One dealer may handle hard-

ware, automobiles and lumber; another may handle hardware and farm implements; while a third may handle furniture, grain and building materials. Farm implements, for example are handled in connection with all classes of goods from hardware to general merchandise, while there are relatively few exclusive or specialty implement dealers. This means that, in many instances, the change from general to specialty stores is not complete. Regardless of their classification, rural stores have many problems in common. How to hold their trade in competition with the mail order houses and city stores is a question of interest to all rural merchants.

Effects of the automobile on the rural merchants.—The introduction of the automobile into general use has meant much to the rural population. It has done much to destroy the isolation of American farm life. It enables the farmers to visit their friends, to see the movies, to attend meetings, etc. more frequently. It enables them to get to town quicker and, so to speak, moves them closer to town. It enables them to visit the more distant towns and increases the number of merchants from whom they are able to buy. Farmers with automobiles commonly visit towns ten and fifteen miles away to make purchases while to purchase special articles or to attend special sales they will visit stores forty miles from their homes. The use of automobiles is tending to concentrate business in the county seats and other similar towns and to take it from the cross-

roads and small village stores. If such stores survive it will likely be only for the sale of convenience lines.

Opportunity of town merchants.—The concentration of business in the towns gives the merchants there an opportunity to expand their business and operate on a much larger scale. Wide awake merchants by judicious advertising, by special sales, by bargain counters, and by rendering special types of services to the farmers have been able to greatly increase their sales. Careful selection of stock with close attention to purchasing enables such stores to carry large and well assorted stocks of goods and to sell at prices that compare very favorably with those obtainable anywhere else. The application of efficient merchandising methods make possible the building up of sales to very handsome proportions. Instances have been reported of such merchants building up sales running into the hundreds of thousands of dollars annually while the million mark has occasionally been passed. From this it can be seen that it is unnecessary for the ambitious country boy to go to the city to find an opportunity for success in the merchandising field.

2. THE SPECIALTY STORE

The specialty store is a store that handles one class of goods, as hardware, groceries, or hats. There is quite a difference in the degree of specialization among specialty stores. Compare, for ex-

ample, the small number of items, handled by a hat, cigar or candy store with the large number handled by the modern drug or hardware store. Originally the number of items handled by all specialty stores was small but with the increase in the quantity and variety of manufactured articles many specialty stores have added more and more articles to their stocks. Consider the development of the hardware store. Fifty years ago "hardware" meant shelf goods and such items as stoves and saddlery were handled in separate stores.[2] Contrast this with the lines of goods handled by the modern hardware store. Builders hardware, tin ware, stoves, cooking utensils, nails, wire, cutlery, firearms, ammunition, seeds, garden tools, rope, bolts, carpenters' tools, kitchen furniture, small farming tools, woodenware, blacksmiths' supplies, and paints are some of the lines ordinarily handled by hardware stores at the present time. The drug store handles about as many different lines as the hardware store while the modern department stores developed from the specialty dry goods store with its line of "dry goods," notions, and women's clothing.

Recent tendency toward greater specialization.—Of recent years there has been a tendency toward greater specialization and strictly one line stores have been established handling for example only waists, hats, or hosiery. In some cases such stores are organized as chains. Such highly specialized stores make possible minute attention to the selection,

[2] Briggs: "Fifty Years on the Road."

care and display of goods. They offer quick stock turnovers and a relatively simple problem of management. On the other hand they have few articles to bear the overhead expense and with such a small number of items in stock their sales may be seriously affected during dull seasons. Its the old case of carrying all the "eggs in one basket."

Number of specialty stores.—It was pointed out in the proceeding chapter that the specialty shop was the oldest type of retail store. It is still the prevailing type in the United States, and, if the specialty chain stores be included, it bids fair to continue as such in the future. The number of specialty stores in the Unted States in 1918 was given by the J. Walter Thompson Co. as follows: — Only the better known classes of dealers are given:[3]

Groceries	235,799
Hardware	49,426
Drugs	49,396
Shoes	49,152
Automobile Accessories	38,988
Garages, Repair Shops	44,085
Dry Goods	31,168

These figures are to be taken as only approximately correct. The total number of stores handling groceries — grocery stores, general stores, department stores, etc.—has been placed at 400,000. The total number of retailers handling cigars and tobacco has been placed at close to 500,000.

[3] "Population and Its Distribution," 1918, pp. 198-203.

A more detailed list of the number of specialty stores, compiled in 1913 is given in the footnote.[4]

Competitors of the specialty store. — The city specialty store competes with the department store, the chain store, and to a lesser extent with the mail order house. The rural specialty store competes with the general store, the mail order house, to a certain extent with the city department and specialty stores, and, in many parts of the country, with the chain stores. The chain stores are in most instances specialty stores but as their problems are so different from those of the individually owned or unit specialty stores that they will be considered separately. The individual specialty stores have certain advantages and certain disadvantages in meeting the competition from other types of retailers.

[4]

Groceries	172,043	Confections	35,423
Butcher Shops	62,798	Lumber	29,669
Drugs	43,230	Milliners	26,843
Cigars and Tobacco	40,555	Stoves	22,177
Dry Goods	30,787	Jewelers	22,025
Bakers	25,788	Hardware	20,881
Clothing	22,713	Harness and Saddlery	20,084
Shoes	20,104	Glass, Oil and Paint	29,553
Carpets	19,316	Furniture	16,131
Grain	16,783	Feed, Flour and Grain	19,839
Hats and Caps	16,240		

From Dun's list, as compiled by the Rapid Addressing Machine Co., quoted from Nystrom's "Economics of Retailing," which points out that there are some duplications in the figures and that the numbers cannot be added together to get a total.

ADVANTAGES OF SPECIALTY STORES

Location.—The specialty stores often have an advantage over their competitors in the matter of location. The corner store in the residential section is ideally located for the sale of convenience lines. They are however as a rule no more conveniently located than the chain stores or than the general stores in the rural districts. The department stores must be centrally located and this means that they are in the shopping district. People like to shop where there are several stores close together and the department stores are so situated. The down town specialty stores are often just as conveniently located for the shopping trade as the department stores. In fact, they are frequently more accessible than many of the departments in the large stores for the reason that the customers do not have to push through crowded aisles and wait on elevators. This is especially important when only one or two items are to be purchased. If several articles are to be bought the one large store may be more convenient.

Personal touch.—The opportunity of establishing friendly relations with their customers is quite an advantage possessed by the small specialty stores. People like to trade where they are known and called by name. We all like to be remembered. A personal acquaintance with customers also facilitates the extension of credit. It is quite an asset for a dealer to remember the tastes of his customers, the

style of clothes they wear or the kind of food they like. This applies particularly to men, who will frequently go out of their way to trade with a dealer they like. A few merchants have taken advantage of this fact and card index their customers so as to have always available information as to the kind of goods each likes. On the other hand many specialty dealers fail to take advantage of their opportunity and do not make their customers feel any more welcome than if they were in an automat or a self-serve store. It may be objected that the heads of the departments in a department store have the same opportunity of establishing personal contacts with their customers. To a certain extent they have. They are, however, away from their departments frequently on buying trips. They must take a large part of their time supervising and training their salespeople. Even if a specialty dealer has as large a number of clerks it is much easier to make them feel a part of the organization and to secure their cooperation in carrying out its policies. Then, too, a department store secures principally the shopping trade, and so draws its trade from a much larger area. This means that more different people visit the different departments while a specialty store is visited more regularly by the same people. For these reasons department heads have little opportunity to establish personal relations with their customers.

Better assorted stocks.—The specialty store can often carry a larger and better assortment of goods in its line than the department store, general store,

or mail order house. There are, however, many exceptions to this statement. In many cases the department store carries larger stocks in certain of its departments than any of the competing specialty stores. The specialty store does, however, offer the opportunity for the careful study of its line and for the purchase of goods especially suited to the needs of its patrons.

Quicker stock turnovers.—Close attention to the selection and care of stock together with careful purchasing gives the specialty store the opportunity of turning its stock of goods more frequently than the larger store which cannot give such detailed attention to all the different lines of goods handled. This opportunity is however, often neglected.

Low operating expenses.—The specialty stores commonly have a lower cost of doing business than the department stores. Those in the residential sections have lower rents. Those in the shopping districts have rents comparable for the space occupied with the department stores but apparently have lower overhead expenses. The unit specialty store, however, frequently has higher expenses than the chain stores and this is one reason why they have been losing so much business to the chain stores. The rural specialty store certainly has or should have as low or lower expenses than any of its competitors, unless it be the chain store. The cost of doing business by the different types of retail stores will be discussed in a later chapter.

DISADVANTAGES OF THE SPECIALTY STORE

Little buying power.—As a rule the specialty store buys in such small quantities that it is unable to secure price concessions or quantity discounts. In many lines it must still buy from the jobber while its larger competitors, the chain and department stores, buy direct from the manufacturers. The specialty dealers through their associations may decry such practices as unfair competition, but it generally goes on just the same. The specialty dealer generally has his time so taken up with the management of his store that he is not in a position to learn of special bargains in job or odd lots which are bought by the department, and chain stores. If a manufacturer is in urgent need of money and must sacrifice goods to get it he goes to the large stores which can pay cash and take a large quantity of goods. The small store can only benefit from such sales to the extent that the jobber passes on such price concessions to him.

This disadvantage in buying is probably the greatest handicap of the small specialty store. In the grocery field it has become so serious that the dealers realize that something radical must be done if their businesses are to be saved. Hence, the introduction of cooperative buying. The cooperative jobbing houses were mentioned in Chapter V. These cooperative jobbing houses have grown very rapidly and by enabling the individual stores to purchase their goods more cheaply may prove the salvation of the small dealers.

Stores not centrally located.—It was stated above that the corner store was well located for the sale of convenience lines. This means that it is poorly located for the sale of shopping lines. The neighborhood store is well located for the sale of goods to people in the neighborhood but it is very hard to draw customers from a distance, which means that most of these stores can secure only a relatively small volume of sales. The location of such stores is an advantage but at the same time imposes a limitation on growth. The easiest way for a successful and energetic neighborhood merchant to expand is by opening additional stores in other neighborhoods.

Advertising.—The neighborhood store is at a disadvantage in newspaper advertising for the reason that it must pay for the entire circulation while a very small percentage of the readers can be regarded as potential customers. It is, of course, possible to partially overcome this disadvantage by the use of handbills and neighborhood papers, where such exist. It is also claimed by some that the specialty store in the shopping district cannot advertise as advantageously as the department store for the reason that it has only one line to advertise and that is not in a position to utilize newspaper space or the services of an expert advertising department to the best advantage.

Poor management.—Poor management is not an inherent disadvantage of the specialty dealers but it is a fact that a very large proportion of the small

specialty dealers are very inefficient. Very few of them have any special preparation for the management of a store except that acquired in previous "clerking" experience and many of them did not even have such experience prior to entering business for themselves.[5] Many retail dealers give little attention to stock-turnover. Many of them know little about the proper display of goods. Few of them keep full or adequate accounts and hence cannot follow any scientific mark-up policy in making their prices. Few of them have any scientific method of keeping stock or of ordering goods. Most of them have located their stores by guess without any careful investigation as to the desirability of the location. With these facts in mind the wonder is not that the chain stores and mail order houses have made such inroads on their business but that they have been able to hold their own as well as they have. Those specialty dealers who have employed scientific merchandising principles in the management of their stores as a rule have had little to fear from any of their competitors.

Methods of increasing efficiency.—The specialty stores can increase their efficiency by carrying smaller stocks of goods and securing quicker turnovers, by closer collections, by the use of modern accounting methods, by careful training of salesmen and attention to customers, by better store services, and by proper buying. The studies of the Harvard Bu-

[5] For a fuller discussion of this point read Nystorm: "The Economics of Retailing," 1919, pp. 319 and 320.

reau of Business Research showed that the retail grocers ordinarily have an average of 7.9 stock turns a year, but that twelve turns a year are practical for the ordinary grocery store. Closer collections mean smaller losses from bad debts and more money with which to take cash discounts. Proper accounting methods enable the merchant to weed out unprofitable lines and to price his goods properly. More attention to the training of salesmen and the development of their interest and loyalty through prizes, conferences, bonuses, etc. will lead to increased sales, better care of stock and more attention to the customers. Retail salespeople should learn to give customers real information about the merchandise and to wait on them in their proper turn. Better store service means keeping the store clean, taking better care of stock, better window displays, more care in displaying goods, and care in laying out routes when delivery service is furnished. When not waiting on customers the salespeople should work on stock and not loaf. The merchant should interview as many salesmen as possible and learn all that he can from them but should not allow them to induce him to overbuy. He should strive to buy the proper goods in the proper quantities.

CONCLUSIONS

It is estimated in later chapters that the mail order houses obtain four per cent of the retail business and the chain stores from seven to ten percent.

If the mail order sales be taken as five per cent, the chain store sales as ten per cent, and another ten per cent be added for the sales of the department stores, it is apparent that the independent specialty and general stores, in spite of their general inefficiency, still handle 75 per cent of the merchandise sold at retail in the United States. With the specialty and general stores we include those stores which handle two or three lines of merchandise (as, for example, clothing and shoes; or hardware, farm implements and automobiles) and yet which do not handle the lines necessary to be classed as general stores and which are not organized and managed as department stores. The specialty; general; and double and triple line stores are still in control of the bulk of the retail trade of the country. The chain stores, which are growing so rapidly, are organized to operate a number of small stores. The large retail stores, although serving a useful function, apparently cannot replace the small stores. The retail store exists solely to supply goods to the consumers as needed and the small stores with their convenient locations are better situated to do this with many classes of goods than the large centrally located stores.

CHAPTER X—QUESTIONS

1. Enumerate the advantages and disadvantages of the general store, and of the specialty store.
2. What effect is the automobile having on the relative importance of these two types of stores?
3. How has the small specialty store succeeded in holding such a large part of the trade of the country, when so many of them

are inefficient? Will they continue to hold their present position against the competition of the chain stores, department stores and mail order houses? Why or why not?

4. Would it be in the interest of the public if the small neighborhood stores were abolished and retailing concentrated in large, centrally located stores? Discuss.
5. Clark Bros. conduct a general store in a town of 2,000 people. They have the oldest store in the town. It is well known and has enjoyed a large trade but of recent years it has been losing trade to the specialty stores—grocery, drug, clothing and dry goods—that have grown up with the town. Its sales of dry goods, notions, shoes, and clothing have suffered especially. Should it discontinue these lines and carry only groceries, hardware, farm implements, and seeds? Should it go further and discontinue its grocery line and devote its entire attention to hardware and farm equipment lines? Why or why not?
6. Clark Bros. also are coming to feel mail order competition keenly, would the change of policy suggested above help them to meet mail order competition? Can this store secure the trade of farmers having automobiles and living from 10 to 30 miles away? Discuss.

Chapter XI

RETAIL TYPES (*Continued*)

3. THE DEPARTMENT STORE

Definition. — The department store is a retail store handling several classes of goods, (one of which ordinarily is dry goods) each class being separated from the others in management, accounting, and location. In other words a department store is a store with a "departmental" organization. Most of our department stores have developed from the specialty dry goods stores and there is in actual practice no very clear distinction made between these two classes of stores. In the smaller cities and towns stores handling dry goods, notions and women's clothing are sometimes called "department" and sometimes "dry goods" stores. The real distinction is in the organization and not in the lines of goods handled. If such a store has the different classes of goods separated with a manager for each class and an accounting system that shows the sales, expenses, and profits separately for each class of goods, then it is a department store. If it does not have such an organization it can not properly be so classed.

The actual lines of goods handled vary widely from one department store to another. Some of the

department stores handle only dry goods, shoes, notions, and women's clothing, while others handle practically everything that is used by the modern urban family—women's clothing, men's clothing, children's clothing, shoes, hats, furniture, carpets, household furnishings, stoves, dishes, dry goods, books, toys, sporting goods, automobile accessories, jewelry, toilet articles, candy, groceries, etc.

Importance.—Dun lists about 1,800 department stores in the United States. The 1910 census reported 9,000 department stores but apparently included a large number of small town stores that are sometimes called department stores but in reality do not deserve this classification. The J. Walter Thompson Co. gave the number of department stores as 4,620 in 1918. Many of the large city department stores have annual sales running into the tens of millions of dollars. Nystrom states that there are 100 department stores rated at over $1,000,000 each. Parlin estimated that there were in 1912, 1,140 "textile" or department stores having sales of $200,000 or over. The department store is of especial importance in the sale of dry goods and women's clothing. It has been estimated that they sell over 40 per cent of the total dry goods and women's ready to wear clothing sold in the United States.[1]

Character of trade.—Most department stores are

[1]Parlin, C. C.: "The Merchandising of Textiles," p 26. He estimated that these 1,140 stores sell 43 per cent. of this class of goods. There are also a number of smaller department stores.

centrally located to secure the shopping trade and their principal business is done in shopping lines. They do some business in convenience lines for when people go shopping they also purchase some of the small household necessities, such as thread or groceries. Some department stores have grocery departments but it is rather unusual to find a department store handling fresh meats. It has been thoroughly demonstrated that the specialty and neighborhood stores can successfully compete with the department stores in the sale of convenience lines, and the department stores have come more and more to concentrate in the shopping lines—dry goods, clothing, shoes, hats and household furnishings of all kinds. The convenience goods are generally where the shoppers will see them on their way to look at the shopping goods.

A woman's store.—The department store in primarily a woman's store. It is arranged for shopping—the goods are well displayed and so arranged that the customers cannot fail to see them in passing from one department to another. Most women like to shop—to look at different goods and compare their qualities, styles, appearances and prices—and the department stores usually cater to their likes in this respect. On the other hand men usually dislike to shop. They do not like the crowded aisles and the slow elevators. They prefer the smaller specialty stores, easily accessible from the street where their wants can be easily and quickly supplied and where perhaps they can "pass the time of day"

with the proprietor. Some department stores have tried to cater to the men by establishing men's departments with a truly masculine atmosphere and advertising it as a man's shop. Such attempts have, however, not always been successful. One authority states that men's departments are more often successful in the East than in the South or Far West, but that 85 per cent of the men's furnishings sold by department stores are sold to women.[2]

Changed living conditions.—The department store owners realize that the women at present do a very large part of the purchasing for the family. This has come about as the result of changed living conditions. A generation or so ago woman's time was so taken up with home duties—cooking, baking, sewing, washing, and the care of children that she had little time for shopping and the husbands or children of necessity had to buy many of the goods used in the home. With the growth of manufacturing many articles formerly made at home came to be made in factories. Practically all men's clothing is now purchased ready made. It is unusual to find a city woman who even makes her husband's shirts or socks. A larger and larger part of the clothing for women and children is being bought ready made and less and less made at home. The same applies to food stuffs. Canned goods, bread, cakes, pies, etc. are purchased already cooked. It has been estimated that 60 per cent of the nation's bread is now baked in commercial bakeries, which,

[2] Parlin, C. P.: "Merchandising of Textiles," pp. 20 and 21.

if true, means that very few city housewives bake their own bread. Machinery has lightened the remaining tasks—sweepers, washing machines, mangles and electric irons. Steam heated houses with electric lights and modern plumbing appliances have eliminated much of the work of attending to fires, lamps and of carrying and heating water. The purchase of factory made goods and the use of labor saving devices is not limited to the city dwellers as they are now coming into general use upon the farms. The farmer's wife, however, still has a great deal more work to do than her sisters in the towns and cities. These changed living conditions together with the smaller number of children in the modern family have given women time to do a large part of the family purchasing, a task which their husbands were glad to dispose of and which they were equally as glad to assume.

Importance of women as buyers.—Women now select not only their own and their children's clothing but a considerable part of that worn by their husbands. They buy most of the food and a very large part of the house furnishings, although in the purchase of the latter it is not uncommon for husband and wife to shop together. It has been estimated that women now buy 24 per cent of the men's clothes, 90 per cent of the groceries and an average of 75 per cent of all the goods used in the home. These percentages are perhaps only guesses by well informed people and are apparently based on urban rather than rural conditions. They may, how-

ever, be taken to show the importance of women buyers to the present day merchant.

Characteristics of women as buyers. — Women take more time to shop than men. They look at more goods, visit more stores, and take longer to reach decisions. It is said that women commonly look at goods at three stores before buying. This adds to the expenses of retailing and hence to the cost of goods to the customers. "They also read descriptions and note details more carefully. The struggle of American families for social place and for more complete satisfaction of a very wide variety of wants causes many women to think more of the pennies than do men. For this reason, sales at reduced prices mean much more to women than to men."[3] Women are, or think they are, better judges of quality than men and hence rely more on their own judgments and opinions and less on brands and trademarks.

Service.—In catering to the shopping trade most department stores have emphasized "service." They have extended credit liberally, have filled telephone orders, have installed extensive free delivery services, have sent goods to the homes of their patrons on approval, have made c. o. d. sales, have exchanged goods freely, and refunded the money in case of dissatisfaction. In addition to such services many department stores have installed special equipment for the convenience of their patrons, e.g. rest rooms, writing rooms, auditoriums, theatres,

[3] Nystrom, Paul H.: "The Economics of Retailing," p. 33.

children's play rooms, beauty parlors, restaurants, children's barber shops, telephone booths, and information bureaus. A charge is made for the services rendered by many of these but they are installed or operated in most cases for the convenience of their patrons rather than for profit. The department stores wish to get people in the habit of visiting them frequently and attempt to secure their good will by supplying as many of their needs as possible. These services all increase expense and of late there has been a tendency toward curtailment. These expensive services are often the result of competitive conditions. One store will install a new facility or introduce an extra service and the others will follow with similar or better facilities or services. In the end expenses are increased with no particular advantage to any store.

Competitors of the department stores.—The department stores compete with the large centrally located specialty stores, with the small down town specialty shops, with the chain stores, with the neighborhood stores, to a lesser extent with the mail order houses, and with the rural stores for the country trade. The department stores have several advantages as compared with their competitors. They are also at a disadvantage in several respects. The principal advantages and disadvantages are summarized in the following paragraphs.

ADVANTAGES OF DEPARTMENT STORES

Large purchasing power.—One of the principal advantages of the large department stores is their ability to purchase goods cheaply. Such stores buy in large quantities and can often secure quantity discounts or special prices. They very frequently buy direct from the manufacturers and eliminate the jobber's profit. Then too many manufacturers will make special concessions to have their goods sold by large department stores because of the advertising value of such sales. The department stores have expert buyers who are good judges of qualities and prices and who are on the lookout for any special bargains in job lots, forced sales, or bankrupt stocks. Most large department stores are in a position to make cash purchases from manufacturers who must sell goods at a sacrifice to realize money quickly. They are in a position to buy odd lots, bankrupt stocks, or to purchase a manufacturer's surplus goods. Also they often buy in such quantities as to have goods made to their order. If they can contract for the entire output of a plant they are in a position to demand a concession in price.

Location.—The central location of most department stores is an advantage in securing the shopping trade of people from all parts of the city and also of out of town shoppers. The ability to make all necessary purchases in one building and under one roof is an advantage, especially in bad weather and to persons who dislike spending a large amount of time and energy in shopping. The ability to buy all

kinds of goods on one line of credit is also quite a convenience to customers as it saves the trouble of opening different accounts and paying several monthly bills .

Advertising. — The department stores are the largest users of newspaper advertising. It is said that they practically dictate the news and editorial policies of many of our metropolitan dailies. Be this as it may, they are in a position to use advertising space very economically. They draw trade from almost the entire circulating area of most daily papers and hence, pay for very little waste circulation. It is also stated that as they have many lines of goods to advertise space can be used to better advantage and that the expense of advertising any one line is less than that of a competing specialty store having only one line to advertise. Certainly when customers are brought to the store by advertisements of goods in one department they frequently make purchases in other departments. For this reason department stores have often made use of special sales and cut prices to attract people to their stores. It has been stated that they often sell some well known branded product at a very low price, perhaps below cost, to attract people to their stores, in the hope of selling them other goods. Many manufacturers object to the sale of their products at cut prices. The wisdom and ethics of such a merchandising policy has often been questioned. The question of "cut prices" will be discussed in a later chapter.

Delivery.—The large sales of a department store make possible a well organized and efficient delivery system. Undoubtedly a large department store can operate a delivery system over a wide area much more cheaply than a smaller specialty store, but as a rule the specialty store is not called upon to operate such an extensive delivery system. The liberal delivery policy of most department stores is quite a convenience to their customers but as a rule they have higher percentages of delivery expense than do the specialty stores.

Expert supervision. — Department stores are usually large enough to employ experts to manage their various departments, to work out new merchandising policies and to train employees. For this reason the department stores are often in the lead in feeling and meeting public needs, in introducing new merchandising policies, and in working out new methods of stock keeping and display. They can afford to employ high salaried men to manage their advertising, credit, and other departments. This often means that these departments are more efficiently managed than similar departments of smaller stores.

Centralized departments.—A department store is in a position to realize certain economies from single centralized departments, such as accounting, credit, and advertising—serving the entire store. A single credit department, for example, can be operated more economically than would be possible if each department had to employ a credit manager. A single investigation of the standing of a prospective cus-

tomer is sufficient. Smaller stores must accept more risks, which means more losses from bad debts, or must incur relatively larger expenses for the maintenance of a credit department. The same is said to be true of the accounting and advertising departments.

Reputation.—Department stores derive certain benefits from the fact that they are large and well known. Some people like to trade with "big stores" as they think it gives them a certain prestige among their neighbors. They like to have the delivery wagons of large and well known stores stop in front of their houses.

DISADVANTAGES OF DEPARTMENT STORES

Can Get Only Shopping Trade.—The department stores are located to secure the shopping trade which means that they are poorly located for the sale of convenience lines. The smaller specialty and neighborhood stores have demonstrated their ability to hold most of this trade.

Abuse of Services.—Many people take advantage of the liberal service policy of the department stores. "The customer is always right" policy is abused by a certain number of people. The fact that department stores are liberal in this respect causes many people to make unreasonable requests and claims. It is stated that many people have very small packages delivered, that they ask that goods used for considerable periods be exchanged or taken back, that they

make c. o. d. purchases with no expectation of accepting the goods, and that they purchase goods on approval with no intention of keeping them. Women while shopping frequently see goods that they want but know they cannot afford. It is said that some of them will have the goods sent home in order to have the delivery wagon stop at their doors and perhaps also in the hope that they can find some way of paying for the goods. Such purchases are nearly always returned to the stores. Stories have also been told of women having several rugs, curtains or other household furnishings, or even dresses sent home on approval, using them for teas or other social functions and then having the stores send for them as they have decided that the goods are not what they want.

The practice of allowing women to select their clothing and hats in their homes is an expensive one. The women who has three dresses or hats sent home with the expectation of keeping only one of them is adding materially to the stores selling expenses. This practice involves not only the expense of calling for the rejected articles and of making the necessary bookkeeping entries but the packing and handling causes a very rapid depreciation in their value. Not only this but such a practice forces the store to carry a much larger stock of goods, for goods scattered all over town in the homes of prospective buyers cannot be shown or sold to others. A large enough stock must be purchased to allow for the goods constantly out of stock. Allowing customers to select goods in their own homes may be very desirable from the

standpoint of the customer but it is very expensive to the store.

Decentralization of policy.—In a large store with such a large number of employees it is extremely difficult to have the store's policies carried out in all departments at all times. The policy of the store may be excellent but the actual practices existing in certain departments may be very poor. The statements or actions of certain employees may be just the opposite of those called for under the store's policy.

Poor salesmanship.—The salesmanship found in many department stores is very poor in spite of special instructors to train the salespeople. In a large store the salespeople have to be supervised by hired employees, they are far removed from the owners, and often feel very little interest in the success of the store. Poor salesmanship is not an inherent disadvantage of the large department stores but the fact remains that most of them have so far failed to obtain as high an average standard of salesmanship among their salespeople as is obtained by many specialty and chain stores. Poor salesmanship may lose sales after the best of advertising and window display have brought prospective buyers into the stores.

Lack of personal touch.—There is little opportunity for personal relations, between buyer and seller in the department store. The customer is seldom "waited on" by the same salesperson, although a saleswoman here and there does build up a group of loyal customers. The opportunity of establishing friendly relations with customers is a distinct advan-

tage to the small specialty store, but, as previously explained, an advantage that they all too frequently neglect.

Inability to cater to the ultra rich.—The department store is a store for the masses. As a rule it cannot build up trade in the exclusive lines demanded by the rich. Catering to the whims of this class is really the function of specialists and a very large part of this trade goes to specialty shops. Such shops can better carry the kinds of goods desired, and furnish the service and "exclusive atmosphere" demanded by this class.[4]

High cost of doing business.—Due to the expensive services rendered and the large overhead expenses most department stores have high operating expenses as compared with the small specialty stores. Department stores, being centrally located, generally have high rents. They must be in the shopping section and if this section moves the department stores must follow. Such moves involve the purchase or lease of expensive locations and often the carrying

[4] A department store does at times cater to such trade in certain, lines of goods, but a special department often has to be created so that a specialty store is really developed within the department store. The *New York Times* of Oct. 24, 1920, described the development of such an antique department. This department not only has its own buyers and saleswomen but its own stockrooms, its own packing rooms, its own packers, and even its own delivery wagons. It develops its own policies and renders individual service to patrons just as is done by the exclusive Fifth Avenue shops. Such a department is really a specialty shop which happens to be owned by a department store and located in its building.

of old rents and leases for several years.[5] The elaborate service rendered adds materially to expenses. Such things as rest rooms and auditoriums occupy valuable space, while lunch rooms, and barber shops may be operated at a loss. Liberal return and exchange privileges also increase costs.

Advertising expenses high.—The advertising expenses of department stores are generally above those of specialty stores. Department stores may be able to utilize space to better advantage than specialty stores, but they, as a rule, advertise on a more extensive scale than most specialty stores. The average advertising expense of department stores has been estimated as 4 per cent of sales compared with average expenses of from 0.8 to 2.9 per cent by different classes of specialty stores.

Large delivery expenses.—High expenses are also incurred in rendering liberal delivery services. The department store may be able to operate a delivery system more economically than a small specialty shop could over the same territory. The small

[5] Over 60 per cent. of the large and medium sized department stores in New York (Manhattan Island), moved or went out of business between 1906 and 1916. Of 30 such stores in New York in 1906, 11 had gone out of business, and 8 had changed their locations by 1915. Prior to 1906 the department stores were below Twenty-third Street. Many of them were driven out of this section by factories and moved north of Thirtieth Street. The factories followed and threatened to force the stores to seek a new district. A movement was started to save the shopping section and keep the factories out of this district, which is bounded on the East by Third Avenue, on the north by Fifty-ninth Street, on the west by Seventh Avenue, and on the south by Thirty-first, Thirty-second, and Thirty-third streets.—*Journal of Commerce,* Jan. 4, 1916.

store, however, seldom covers such a large territory and so has a lower percentage expense for delivery service.

Lost motion.—There is a certain waste of time in department stores due to the difficulty of always apportioning the proper number of employees to each department. Department store employees are generally more careless than those in a smaller store who are under the immediate supervision of the proprietor. This carelessness leads to the loss, soilage, breakage, and spoilage of merchandise.

Expense of developing systems.—The department stores must spend more money for the development of systems. Statistics must be gathered and compiled and experts employed to show the progress of the business and to devise methods and policies for the future. Most small stores would undoubtedly be benefited by better accounting methods and more attention to changing conditions and improved store policies. The small merchant, however, is in a position to know more about the condition of his business and the demands of the customers from personal supervision of his store and contact with his customers. The fact remains, nevertheless, that the department stores actually have higher expenses in this connection than the small stores.

Average expenses.—Sammons, Nystrom, and Butler, all three, give the average cost of doing business by department stores as between 26 and 27 per cent. Stores in large cities often have even higher

expenses.[6] This is considerably higher than the average costs of most classes of specialty stores. Stores located in the shopping districts, catering to the shopping trade and competing with the department stores in delivery, credit and other services appear to have expenses approximately equal to those of the department stores. The expenses of most department stores are, however, considerably higher than the expenses of most of the specialty stores, chain stores, and mail order houses. This high cost of doing business places the department stores under a serious competitive handicap and has undoubtedly operated to check the growth of this class of stores.

A successful manager's advice.—In this connection it is interesting to note what the head of a large department store operating on a cash basis has to say about expense. "The greatest number of people buy where they can get good goods and save money. They need no other inducement. . . . The merchant who offers good goods as cheaply as it can possibly be done is sure to grow fast and safely. For although he may reap a lower percentage of profit than his competitor, he will more than make this up by the increase in the volume of business. A two per cent profit on a turnover of ten millions is twice as worth while working for as ten per cent on one million. You can figure that for yourself. The strongest

[6] Nystrom, Paul H.: "Economics of Retailing," p. 67; Butler, Ralph Starr: "Marketing Methods," p. 65; Sammons, Wheeler, *System*, June, 1914.

argument against fads (showy methods), however, is not their uncertainty in bringing trade, but the fact that they are so costly. . . . The offer, 'We lay our rugs on your floor so that you may live with them and see how you like them,' is one of them. Or the invitation to, 'select your hats in your own home'!

"The customer always has to pay the whole cost of an article from the time it is planned before manufacture until it is delivered into his hands. Too few of us think of that. For all the world is a customer and should be interested in cutting foolish costs. This brings me to the advice which I offer those who are taking over the direction of business undertakings,—whether these undertakings are large or small:

"Keep down expense! Keep down expense! For therein lies the profit to the merchant and the saving to the customer. Each reacts on the other."[7]

THE PROBLEMS OF THE DEPARTMENT STORES

The department stores have the advantage of being able to buy their goods cheaply, but most of them have the disadvantage of finding it expensive to sell them. The high operating expenses seem to just about offset the low costs of the goods so that the department stores and specialty stores compete on more or less equal terms so far as selling prices are concerned.

[7] Mrs. Mollie Netcher Neuberger, Manager of the Boston Store, Chicago, writing in *The American Magazine* of June, 1919.

Problem of management.—The question of efficient supervision and management is the department store's most serious problem. Many of these stores have grown so large that they have apparently outgrown their organizations. The owners are crying for more highly trained men and women with whom to build up organizations capable of operating their stores efficiently and economically. Yet, in spite of all their efforts they seem to be unable to materially reduce expenses.

Do not attract the best type of employees.—It is difficult to secure intelligent and energetic salespeople. It is much more difficult to secure the necessary number of properly trained men and women for the higher positions, both in the merchandising departments and in the general offices. The department stores have not been attracting enough of the right type of young people. Young people entering business seem to feel that the department stores offer them no opportunity for success and hence, if ambitious, they look elsewhere for employment. The complaint has been made that department store employees are devoid of ambition or else feel that the department stores offer them no opportunity for advancement. This is especially true of girls. It is said to be very difficult to find among their sales forces girls who are willing to study and work for promotion. Yet there is probably no other place in the business world that offers the successful woman as large a financial reward as the depart-

ment stores.[8] Perhaps this attitude is due to the fact that such stores have a large number of poorly paid employees and relatively few highly paid employees.

Success generously rewarded.—Success in the department stores is generously rewarded. Successful department managers earn ten, twenty-five, and even fifty thousand dollars per year. Competition among the stores is keen for such people and as long as their success lasts they are assured of highly remunerative employment. Ambitious young people expecting to enter business should consider seriously the opportunities offered by the department stores.

THE FUTURE OF THE DEPARTMENT STORE

A generation ago the department stores were growing rapidly and were supposed to afford the most efficient method of retail distribution. During the last fifteen years they have grown very little as a class and many stores have failed. The value of their sales has increased, but this is due to increased prices rather than the volume of goods handled. There were many department store failures in the year preceding the outbreak of the Great War.[9]

[8] On this point read, "Women in $6,000 to $30,000 Jobs," *American Magazine*, July 1919.

[9] In New York and Brooklyn for example, there were 36 large and medium sized department stores in 1906. Nine others entered the field prior to 1915. Of the 45 stores, 13 had failed, or quit business prior to 1915, while 5 others had failed and been reorganized. Several stores in New York were involved in the Claflin failure and so the failures there during this decade can hardly be taken as typical, but there were many failures in other cities. See *Journal of Commerce*, Jan. 4, 1916

The chain store appears to be capable of more efficient management and more economical operation. The department store, however, has come to stay. It serves a definite need in supplying shopping facilities. The chain store cannot supply such facilities without encountering many of the same problems now faced by the department stores as is shown by the operations of the chains of department stores.[10]

The department stores cannot be expected to attain their former rate of growth unless they succeed in creating more efficient organizations and reducing their overhead expenses.[11]

[10] The increase in the gross sales of typical department stores during the past five years does not appear to be more than the increase in the prices of the goods handled.

[11] At this writing many students of business are predicting a long period of declining prices. If such a period occurs the department stores may enter a new period of growth due to their ability to turn their stocks quickly. The department stores had their origin and a large part of their growth during a period of falling prices. During the ensuing period of rising prices they held their own by emphasizing service. When prices are falling the store buying direct from the manufacturers is able to get the goods to the consumers more quickly than the store buying from the wholesalers and hence is able to pass price reductions on more quickly. This often enables it to undersell the small store which must buy from the wholesalers.

CHAPTER XI—QUESTIONS

1. What factors contributed to the rapid growth of the department stores a generation ago? Why has the growth been slower in recent years?
2. What can you say of the importance and characteristics of women as buyers? What use have the department stores made of these facts?

3. Enumerate the advantages and disadvantages of the department stores.
4. The Brown Department Store located in a city of 500,000 has in the past been prosperous but in recent years the rate of net earnings has been decreasing. It is apparent that if some change is not made that the store will fail in a few years. A survey of the situation shows that competition is very keen. As a result many free and expensive services are granted, such as liberal credit, unlimited delivery, delivery of goods on approval, c. o. d. sales; also rest rooms, nursery, and special attractions to draw people to the store. As a result overhead expenses are high. The labor turnover is high and many of the salespeople are poorly trained and indifferent to the interests of the store. The percentage of gross profits realized is as large as ever and the volume of sales has been on the increase. The percentage of expenses has been constantly increasing. What policies should be pursued under the circumstances?
5. The Imperial Department Store is located in a city of 150,000 people. It has been very prosperous and has accumulated a capital beyond its immediate needs. There does not appear to be much opportunity for increasing the sales of the lines now handled. The company considers opening a store in a smaller city 75 miles away, where there are several stores but none up to the standard of the Imperial. Another proposal is to add additional lines of goods such as furniture. Due to the floor space needed by a furniture department it would be necessary to add one or two more stories to the building. At the present time there are several specialty furniture stores in the town, all of which are very conservative and somewhat old fashioned in their methods. What would each of these changes involve? Which would you recommend? Why?
6. Suppose the Imperial Department Store mentioned in the preceding problem decides to expand the business at its present location but hesitates to start a furniture department due to the necessary capital outlay to secure the needed space, the slow turnover, and the difficulty of securing a capable manager. Instead it is proposed to install a men's department handling men's shoes, clothing, hats, etc. At the present time the store handles a small line of haberdashery but not men's clothing or shoes. These departments can be placed on upper floors of the present building or in rented first floor space in an adjoining

building, leased at the prevailing street floor rates in the shopping district. There are several specialty stores handling men's furnishings but so far none of the department stores have done so except on a very limited scale. Could the men's department be made successful? Would you advise starting this department in preference to a furniture department? Why or why not? If it is decided to install the men's department should it be started on an upper floor or should the high rent be paid for the street floor location?

7. Another proposal for the Imperial Department Store is to start a grocery department. At present the groceries are sold by small specialty stores and a few large down town grocery stores. Chain grocery stores have recently appeared in the town but as yet have not attracted much attention. What do you think of the establishment of a grocery department?

Chapter XII

RETAIL TYPES (*Continued*)

4. THE MAIL ORDER HOUSE

The mail order method of doing business grew up contemporaneously with the department stores to supply the needs of the rural population for a greater variety and a wider selection of goods and to furnish another outlet for the ever-increasing number of manufactured articles.

Classes of concerns doing a mail order business. —First, there is the manufacturer who sells his product direct to the consumer, soliciting business by advertising and correspondence, and receiving orders by mail.

Second, there is the merchant, or middleman, who buys goods made by others and sells them to the consumers by mail. Such a concern may specialize on a small line of goods, but the best known concerns handle a full line of a certain class of merchandise or several different classes of merchandise.

Third, there is the retail merchant who sells most of his goods over the counter, but who receives a certain amount of business through the mails. Several city department stores have operated mail order departments to cater to the out of town or rural trade. Even the rural or small town dealer who is very

bitter in his denunciation of the mail order houses seldom refuses to make a sale simply because the order was received by mail.

Fourth, there is the wholesale mail order dealer, who sells goods to the retailers.

Fifth, any manufacturer or dealer who receives orders for goods by mail may in a broad sense be said to be doing a mail order business. A manufacturer may place orders for raw materials by mail without waiting for the seller's salesman to call. A wholesaler or a retailer may forward orders by mail when out of stock or when salesmen call infrequently. Practically every large business concern makes some purchases or sales by mail and the total of business done in this way by concerns not called mail order houses is enormous.

Sixth, concerns advertising their goods in newspapers, magazines, circulars or letters distributed by the post office, are attempting to sell goods by mail. The advertiser may request the reader to go to the local dealer and ask for the advertised product or he may request the reader to forward his order for this product by mail. The difference is in the method of delivering the product rather than in the method of effecting the sale.

When all of these methods are considered it is easy to see that the mail is an extremely important instrumentality in the making of sales. By the mail order house, however, is generally meant the manufacturer or dealer who receives orders for goods

direct from the consumers by mail. The mail order method is contrasted with the "over-the-counter" or the "personal salesmanship" method, the buyer ordering goods from a printed description without having the opportunity of seeing the goods before purchasing. It is such type of mail order houses that are discussed in this chapter.

Importance of mail order business.—It has been estimated that the direct to the consumer mail order business amounts to 4 per cent of the total retail business of the country and to 20 per cent of the rural retail trade.[1] These estimates cannot be taken as altogether accurate and are presented only to give an idea of the relative importance of the mail order business.

The number of mail order houses has been placed by Nystrom at over 2,500 of which 850 are rated at over $100,000.[2] A few facts about some of the large mail order concerns may be interesting and help the reader to appreciate the importance of the

[1] See Nystrom, Paul H.: "Economics of Retailing," p. 291. These two percentages, however, appear to be too far apart. Over 40 per cent. of the population of the United States is rural. If all of the mail order business was obtained from the rural districts, which is far from the truth, 4 per cent. of the total retail business would equal only about 10 per cent. of the rural business. The fact that the rural population has smaller per capita purchases due to producing many things at home would hardly explain such a discrepancy in the percentages. Evidently the total percentage of the retail business done by mail is over four or the average percentage of rural business is less than twenty. Certain rural communities are, however, said to buy considerably more than 20 per cent. of their goods by mail.

[2] Nystrom, Paul H.: "The Economics of Retailing," p. 290.

mail order business. Sears, Roebuck & Company, of Chicago, has over six million customers; Montgomery Ward & Company, Inc., of the same city, has about six million; while the National Cloak and Suit Company has 2,700,000 active accounts. The plant of Sears, Roebuck & Company, in Chicago, covers thirty-seven acres and the company has branches and distributing warehouses in many other cities. Montgomery Ward & Company, Inc., has its main plant in Chicago and branches in Kansas City, Portland, Ore., and Fort Worth, Texas. The Chicago plant has 19,000,000 cubic feet of space, while the Kansas City plant, with 47 acres of floor space, is said to be the largest mercantile building west of the Mississippi River. The National Cloak and Suit Company has 15 acres of floor space in its plant in New York City. Harris Brothers Company, formerly the Chicago House Wrecking Company, has a plant in Chicago covering 20 acres. The sales of these four concerns follow:

Name	1915	1919
Sears, Roebuck & Company*....	$106,228,421	$233,982,584
Montgomery, Ward & Co., Inc*.	49,308,587	99,336,053
National Cloak and Suit Co*...	17,371,650	39,449,986
Harris Bros. Company.....	3,841,596	4,886,288
Total for Four Companies....	$176,750,254	$377,654,911

* Net Sales

Many of the other large mail order concerns do not publish figures showing their sales. Mail order

houses, in common with other types of merchandising concerns ordinarily give out few figures concerning their merchandising business. Some mercantile concerns appear to purposely refrain from publishing figures from which their gross trading profits operating expenses, and rate of stock turnover can be computed.

Many manufacturers sell direct to the consumers. The Larkin Company and the National Cloak and Suit Company are two well known examples. A large number of such concerns are specialty manufacturers. They often produce articles for use on the farm or in the home, e.g. cream separators, buggies, washing machines, etc. The field, however, is broad and practically every type of merchandise from fish to houses has been marketed in this way. Some of the large mail order merchants have gone into the manufacturing business on a large scale. For example, Sears, Roebuck & Co. reported advances to and investments in factories and branches of $33,067,611 on December 31, 1919, while Montgomery Ward and Company, Inc., report that they have factories manufacturing farm implements, vehicles, harness, gas engines, cream separators, paints, food products, candies, window shades, and automobile tops; and that they are interested in factories making hosiery, bedding, women's wear, boy's clothing, wall paper, and print paper. When the manufacturer sells the consumer direct, all middlemen are eliminated. Many manufacturers who have adopted this method have apparently done so, however, to

secure a larger volume of sales rather than to eliminate the middlemen's profit.

Fraudulent practices.—There have in the past been many concerns trying to defraud the public through the mails. Due to the activities of the Federal Government in searching out and prosecuting those using the mails for fraudulent purposes the number of such concerns has decreased. There are undoubtedly some such concerns still in existence in spite of all that has been done by both governmental and private agencies to exterminate them. Most of the mail order houses, however, appear to be just as honest as the concerns selling their goods in any other way. The public has learned to trust many of the mail order houses and is much less suspicious of such houses than it was a generation ago.

Certain mail order houses have, however, been guilty of untruthful advertising. Complaints of this nature have even been made against some of the largest concerns. Such practices are, however, probably much less common among the reputable mail order houses than among the local department and specialty stores. The mail order houses do an interstate business and use the mails extensively and hence are under the scrutiny of the Federal Government. Local stores are generally free from such scrutiny. Advertising that would bring a large mail order house into court would often go unnoticed if done by local merchants.

REASONS FOR THE GROWTH OF MAIL ORDER BUSINESS

It was pointed out in Chapter IX that the mail order houses grew up principally to supply the rural population with goods unobtainable at the local stores and that their growth was made possible by quick and cheap transportation facilities. Such transportation facilities made possible not only the delivery of small shipments from a central point quickly and cheaply, but made possible a much better mail service. The improved mail service especially the rural free delivery service contributed to the growth of the reading habit and made possible widespread advertising. The growth of the mail order business depended largely upon such advertising.

Increased standard of living.—The standard of living of the American people has increased materially during the past fifty years. The luxury of one day becomes the necessity of the next. Increasing prices of farm products during the past twenty-five years has added materially to the prosperity of the American farmer. Following the Civil War the level prairies of the Middle West were settled so rapidly that the amount of land under cultivation increased more rapidly than population with resultant low prices. Since 1890, however, the population has been increasing more rapidly than the area of land under cultivation and the general trend of prices has been upward since 1895.

New wants.—New wants were acquired from reading, travel, and contact with others. It is human nature to want what we see others have. The

children acquire new wants at school. The movies have been an important factor in developing new wants, especially for house furnishings and clothing.[3] The same pictures are shown in Podunk as on Broadway. They have done much to nationalize styles. It is said that there is now less difference in the kind of clothes worn and merchandise purchased by people in different sections of the country than ever before in our history. The automobile has been one of the most important factors in creating new wants. It increases travel, multiplies the trips to town, to the movies, and to call on distant neighbors. It has been observed that when a farmer buys an automobile he generally increases his standards of living or sells the automobile. The rural population has been able to satisfy many of the new wants due to the prosperity coming from the increased prices for farm products.

Desired goods obtainable from mail order houses.—The mail order house carried a greater variety of goods than the rural stores and many peo-

[3] The following illustration shows the effect of the movies on the demand for clothing: "Every time there is a new movie play with girls in pajamas in them, then the women's pajama business takes a stride ahead. That was proved positively in 1916, when the pajama business for women had its first boom at the time that Billie Burke made a hit in the film play "Gloria's Romance." In it she appeared in a nice little one-piece pajama suit and looked, as the women said, a "perfect dear" in it. The effect was instantaneous. From all over the country dealers sent in to the manufacturers saying: "Send us Billie Burke pajamas. Our shops are crowded with women asking for them." An interview with Sydney S. Samuels in *New York Times*, December 5, 1920.

ple were forced to buy away from home to get what they wanted. The mail order catalog furnished the farmer's wife a substitute for the shopping trips of her city sister. The rural store was, however, partly to blame for its loss of trade for it often did little to increase the variety of goods carried in stock or the efficiency of its merchandising methods.

Manufacturers forced to sell by mail.—Another cause contributing to the growth of the mail order business was the great increase in the variety and quantity of manufactured goods. If a manufacturer finds it difficult or impossible to sell his goods through the regular trade channels he will very likely be willing to sell direct to the consumers or to supply their goods to mail order dealers.

Low prices of mail order houses.—A very important factor contributing to the growth of the mail order business was the low prices at which the mail order concerns offered their goods. They could often undersell the local merchants. They featured low prices in their catalogs and claimed to sell goods cheaper than any one else. The catalogs of twenty years ago were quite different from those of the present time in this respect. When the farmers are poor, price arguments are more potent than when they are prosperous. Whether the mail order houses really undersold the local merchants, when delivery costs and services were considered or not, they made their customers think that they did. At the present time the mail order houses have not

ceased to emphasize price, but many of them now lay great emphasis on quality.

Manufacturers desire to control price to consumers.—Another reason given for the growth of the mail order method of selling goods is that certain manufacturers adopted it in order to control the price to the consumers. Middlemen do not always sell at the prices designated by the manufacturers. Manufacturers who desire to have their prices maintained may thus take the sale of their goods away from the middlemen and sell direct to the consumers.

ADVANTAGES OF THE MAIL ORDER HOUSES

Ability to buy cheaply.—One of the principal advantages of the mail order houses, in comparison with their competitors, is their ability to secure their goods cheaply. The mail order houses buy in such large quantities that they are in a position to buy direct from the manufacturers and secure low prices or special quantity discounts. They have expert buyers who are constantly on the lookout for goods that can be bought cheaply. They are generally in a position to pay cash. They can thus get concessions from manufacturers who must have cash quickly. They can buy goods on which the manufacturers are overstocked. They can contract for the entire output of factories. The tendency of large mail order houses to manufacture their own goods has already been mentioned. If such goods are produced as cheaply as those made by other manu-

facturers, the mail order house can eliminate the selling expenses and profits of the manufacturer and jobber and sell the consumer at lower prices or it can retain both profits for itself. What probably happens in most cases is that, regardless of factory costs, the mail order houses try to price their goods somewhat lower than the prices of similar goods sold by the local merchants.

The low cost of doing business.—The mail order houses have many economies in operation. They do not need to be located in the heart of a city. A location in the suburbs where land is cheaper and rents are lower serves their purpose just as well as an expensive down-town location. They can use labor more efficiently. Their clerks do not have to show goods to customers. No time is lost in waiting for patrons to make up their minds or in showing goods to people who do not buy. A clerk in a mail order house will handle several times the volume of business handled by a salesperson in an ordinary retail store. Again as the clerks in a mail order house do not come into contact with the customers a cheaper grade of employees can be used than is required by the ordinary retail stores. The mail order houses have no expense for house to house deliveries.

Many mail order houses give little or no credit to buyers. Sales for cash involve no loss of interest on "accounts receivable"; eliminate all losses from bad debts; save the expenses of maintaining credit and collection departments; and reduce the expenses

of keeping books. Sales for cash mean that the company can pay cash for its purchases and hence buy more advantageously. Many of the specialty mail order houses, however, have liberal credit policies ("30 days free trial," "No cash with orders" are familiar advertising slogans). Some of the larger houses have introduced a limited credit policy and will now sell certain articles on the installment plan. Sears, Roebuck & Co. reported accounts receivable of $19,883,444 on Dec. 31, 1919, and $47,797,134 on Dec. 31, 1920. Such articles are generally items of relatively large value such as farm implements and house furnishings. Credit sales are sometimes used to stimulate business during dull seasons. For example, farm implements may be sold on credit during the winter, while during the busy spring season cash may be required with all orders. Many people, however, must buy on credit and the fact that many mail order houses will not sell on this basis causes them to buy from the local merchants. More will be said about this later.

Quick turnovers.—The mail order houses can handle a wide variety of goods without carrying large stocks. Many large articles are shipped direct from the factories and not carried in stock at all. Again if goods are out of stock the orders may be held until new shipments are received. People ordering goods by mail do not expect to receive them immediately and hence are more patient in case of delays than when buying from the local merchants. The rate of stock turnover, however, does

not appear to be any greater than that of efficiently managed department and specialty stores.[4]

Development expenses.—The mail order houses often have little expense for developing new articles or designs or for introducing such articles upon the market. They very frequently handle only standardized goods for which a widespread demand has already been created. For example the large mail order houses did not handle gasoline engines until they were past the experimental stage and until they had come into general use. They have taken no part in the development of tractors and yet it is not unlikely that when tractors become more perfect mechanically, when standardized types are developed by experience, and when farmers become more familiar with their operation, that the mail order houses will obtain a simple, standard model for their customers. Such a policy reduces their expenses, but renders somewhat unfair a comparison of their

[4] The mail order concerns publishing their sales figures fail to publish their cost of sales, so that the rate of stock turnover can not be computed. If, however, the net sales be divided by the average inventory a figure is obtained which may be used in comparing the operations of different years. For Sears, Roebuck and Company this division gives the following figures: 1914, 7.3; 1915, 7.5; 1916, 6.8; 1917, 5.3; 1918, 4.3; 1919, 5.2, and 1920, 3.2. These figures indicate a reduction in the rate of stock turnover. From 1916 to 1919 prices were rising and many dealers were buying somewhat in advance of their immediate needs, in other words building up inventories in anticipation of further price advances. Further during much of this period the railroads were congested and deliveries frequently delayed. This meant that larger quantities of goods had to be carried in stock in order to supply customers promptly. A serious slump in business was experienced during 1920.

prices with those of the manufacturers who have borne all the expenses of experimenting, advertising, and demonstrating. If new articles are to be developed some one must bear the expense and the complaint of the manufacturers that the mail order houses shirk this expense and yet take advantage of such work done by others, is perhaps, not without some justification.

Advertising expense.—On the other hand mail order houses have a high expense for advertising. Catalogs must be sent to many people who do not buy and many people buy only occasionally. It was long ago realized that the expense of constantly searching out new customers would be prohibitive and that re-orders from regular customers must be secured if the business was to be profitable. It is said to cost $1.00 to print and deliver a large general catalog. A single issue of 6,000,000 then costs $6,000,000. The mail order houses also have heavy expenses for handling correspondence and assembling orders. These expenses largely offset the economies from low rents, efficient use of labor, cheap clerks, quick turnovers, cash sales, and little work in experimenting and developing new products. It is doubtful if the total expenses of the mail order houses are below the average expenses for many other types of retailers.

Total expenses.—The total expenses of efficiently managed mail order houses has been placed by Sammons at about sixteen per cent of sales. The expenses of Sears, Roebuck & Company has been

given as 15 per cent.[5] The expenses, however, vary widely between different houses. Nystrom reports the following expenses for nine concerns: One, 16%; one, 18½%; one, 20%; one, 22%; two, 24%; two, 25%, and one, 26%.[6] One large mail order house is said to mark its goods for a 28 per cent margin of gross profit. Such expenses are below those of many city department stores, but no lower than those of a great many specialty stores. The rural dealers, however, feel most strongly the competition of the large and efficient houses, as the catalogs of the latter are widely circulated and comparisons are most frequently made with their prices. The rural merchants can by efficient methods of operation hold their expenses down to 16 per cent of sales or even less. The average expenses of all classes of dealers who handled farm implements, which includes nearly all types of rural dealers, was 14.6 per cent of sales in 1915, and 12.6 per cent in 1918. Approximately 50 per cent of such dealers already have operating expenses of less than 16 per

[5] *System*, June 1914. In their reports Sears, Roebuck and Co. combine the cost of goods and operating expenses. Assuming the gross profits to have averaged 25 per cent. the expenses decreased from less than 16 per cent. in 1914 to less than 12 per cent. in 1918, from which point they increased to over 14 per cent. in 1919 and to approximately 25 per cent. in 1920. The gross profits however were probably much below 25 per cent. in 1920 so that it is doubtful if the percentage of expenses was more than 2 or 3 per cent. higher in 1920 than in 1919. If the average gross profits were more or less than 25 per cent the percentage of expenses would be changed correspondingly.

[6] "Economics of Retailing," p. 305.

cent.[7] The mail order houses then have no advantage of the rural dealers as far as operating expenses are concerned.

Low prices.—Due to the ability to buy goods cheaply and the relatively low cost of doing business the mail order house can often sell at low prices. One of the chief reasons why many people patronize the mail order houses is because they can, or think they can, buy goods more cheaply than is possible from the local merchants. The local dealers can often sell their goods as cheaply as the mail order houses, but the opposite is undoubtedly true in many cases.

Farm implements as an example.—During 1916 and 1918 farm implements sold by a large mail order house cost the farmers on the average from 20 and 25 per cent less, after paying the freight, than similar implements purchased from the local dealers. During these years, when prices were rising, the saving on mail order goods seems to have often been larger than usual, due to the fact that the mail order houses advanced their prices more

[7] Federal Trade Commission: "Causes of the High Prices of Farm Implements," 1920, pp. 260 and 261. Sixty per cent of such dealers reported expenses of 16 per cent or less in 1915 while 81 per cent reported expenses of 16 per cent or less in 1918. The table from which these percentages were computed did not include salaries for all dealers as some of them did not pay themselves salaries. Under the Commission's rule interest on borrowed funds was not included in expense. If interest on borrowed funds and salaries for all dealers had been included in expenses, it is safe to say that approximately 50 per cent. of the rural dealers handling farm implements would have had expenses of less than 16 per cent. of sales.

slowly than the farm implement manufacturers and local dealers. This saving refers to price alone. There may be a difference in the quality of the goods sold and the service rendered. The local dealers may render more service by extending credit, giving advice, delivering goods on the farm, carrying repair parts, making repairs, etc. Referring to prices and services, an official of a mid-western dealers' association said: "I have always said that I can take care of a difference of 10 or 15 per cent because of the service I render, and because of being able to make more prompt delivery—but when it comes to a difference of 25 per cent or 50 per cent (in price) it is something to consider. You can realize that it will take a lot of loyalty for farmers to patronize their home dealers when they save such a large difference in buying from mail order houses."[8]

Freedom from local depressions.—The large mail order house draws trade from a wide area and hence is injured little by local depressions. The merchant in the coal fields is injured by a strike of the miners; the dealer in North Dakota is greatly affected by a poor crop of spring wheat, and the storekeeper in the Virginia apple belt loses trade as the result of a killing frost. The mail order houses can draw business from all sections and its total sales are little affected by local conditions which, however, may be very serious for the merchants in these localities.

[8] Federal Trade Commission: "Causes of High Prices of Farm Implements," pp. 219 and 220.

Drawing power of the catalog.—The catalogs of the mail order houses are generally well written. They often contain more specific information about the goods offered than can be given by the retail sales people. Instances have been reported of the farmer after studying the mail order catalog being able to give the local dealer information about his own merchandise. A sad commentary, by the way, on the local dealer. The mail order catalogs are generally well illustrated and their descriptions clear and lucid. A description often sounds better than the article looks. A great many people find such catalogs very interesting reading. The long winter evenings afford the farmer's family ample time to examine them carefully. The catalogs of the large mail order houses are perhaps more read than any other book on many American farms. Many people would rather order from the catalog than to go shopping. It certainly requires less physical energy, a point not to be overlooked with the hard-worked farmer's wife.

DISADVANTAGES OF MAIL ORDER HOUSES

Lack of personal touch.—One of the greatest disadvantages of the mail order house is the lack of personal touch with its customers. The relations between the mail order house and its customers must be impersonal. No friendly relations can be formed. The customers cannot meet the sellers personally. There is no opportunity for personal salesmanship. It was pointed out above that the

catalog had a great drawing power, and in some respects was superior to the salesmanship of many retail salespersons. Such a condition, however, only exists because of the poor salesmanship existing in many retail stores. Efficient personal salesmanship is much superior to the impersonal salesmanship of the catalog.

Customers cannot inspect goods before buying. —The fact that the customers are unable to see the goods before purchasing places the mail order houses at a serious disadvantage. Many people dislike to buy goods without seeing them. This applies especially to clothing, household furnishings, and mechanical appliances. This fact probably explains why the mail order houses have received relatively little business from the large cities. The people may believe that they could save money by patronizing a mail order house, but they are loathe to risk the goods proving unsatisfactory.

Many mail order houses guarantee their goods and give their customers the full right to exchange or return any goods that are unsatisfactory for any reason. Such exchanges, however, take time and, while they are being made, the customer is without the goods. Adjustments, exchanges, etc., also require a certain amount of correspondence which many people dislike. Returns and allowances appear to be quite an important item. The returns, allowances, and discounts reported by Sears Roebuck & Company amounted to 5.7 per cent of their gross sales in 1915 and 9.3 per cent in 1919. This

increase was apparently due to the war and reconstruction period. It was evidently hard to maintain the quality of the goods or else the buyers became harder to please during this period.

Delay in delivery.—Goods ordered by mail are not received at once. To obtain goods in this way people must anticipate their wants. This is inconvenient and often difficult. The mail order houses do a large part of their business in shopping lines, although they sell large quantities of convenience goods. Many people will anticipate their wants for a part of their groceries, for example, but it would be very hard to buy the exact amount of every particular item in this way. The local stores in carrying stocks easily available to the buyers perform an almost indispensable service. The delay in delivery makes it impossible for the mail order house to handle perishable goods as, for example, fresh fruits and vegetables. Some farmers, however, find it easier to order by mail than to make a trip to the nearest store, but there is nevertheless a delay of at least a few days.

Disadvantages of catalog.—It was stated above that many people like to read the mail order catalog. On the other hand there are people who find their perusal tedious, and dislike to select goods from them. Pictures, even if colored, often give a very poor idea of how an article will look. It is often difficult to form a very clear idea of the exact quality or construction of many goods from a printed description. Many people will order from a catalog

only as a last resort. Consulting the catalog is very largely a matter of habit. Some people seldom or never think of consulting the mail order catalogs, while others seldom make an important purchase without consulting them.

In periods of rapidly changing prices the catalogs may involve either the loss of money or the loss of trade. Catalogs are expensive and new issues cannot be distributed every time prices change. While prices are rising orders will be received for goods at the prices given in the catalog. Such orders may involve a loss, if filled. If refused, the house runs the risk of being considered unfair and of repudiating its catalog. During a falling market the catalog prices may appear high soon after the catalog is issued. Such an appearance naturally curtails sales.

Can carry only standard goods.—The mail order house must carry goods in wide demand. It cannot carry goods suited to the needs of particular sections or communities. This often places it at a disadvantage compared with the local stores, which can select goods adapted to the particular needs of their customers.

Cannot render high type of service.—The mail order house is not in a position to render many services which can be rendered by the local merchants —credit; delivery to the homes or on the farms;[9] advice in selecting goods; assistance in setting up,

[9] In certain cities the mail order houses have arrangements with draymen to receive shipments and deliver the goods to the buyers. The buyers must pay for the delivery but such an arrangement gives them the benefit of lower rates.

adjusting, and repairing machines; carrying of repair parts close to the farmers; etc.

Tends to destroy community life.—This is an argument of a different nature as it looks at the question from a social viewpoint. It is argued that the local store tends to draw people to a common point and hence leads to the development of a social center. The school and the church are frequently built near the store. Other stores appear and a village develops. It is argued that if people ceased to come together to purchase their supplies that a serious blow would be struck at community life. The isolation and loneliness of American farm life has been one of its outstanding characteristics in the past. It has often been stated that this was one of the chief reasons causing young people to leave the farm for the city. Anything that seriously hampers social life in the rural districts should be opposed. It is, however, difficult to judge of the truth of the argument that the mail order houses do seriously hamper such social life. It may be denied that local stores are necessary for the development of social centers. From what has been said it is evident that the mail order houses can never entirely eliminate the local merchants. It may also be argued that villages and social centers have already developed and that their existence would not be threatened by a part of the local dealers going out of business. The social changes produced by the automobile must also be considered. It has been stated that the automobile is already taking business from the

cross-roads and small village stores and concentrating it in the county seats and similar towns. The automobile may also draw people together in larger centers and eliminate the need of so many small social centers.

CAN THE RURAL MERCHANTS MEET THE MAIL ORDER COMPETITION

It has been demonstrated that the rural merchants can meet mail order competition. The mail order houses have only two real advantages over the country merchants—ability to carry a larger assortment of goods, and ability to obtain their goods more cheaply.

Can carry carefully selected stocks.—The local merchant cannot carry as large or varied stock of goods as the large mail order houses. He can, however, carry a stock especially selected to meet the needs of his customers, while the mail order house can handle only standard goods in wide demand. By a careful selection of goods and without increasing the total investment in stock, many rural merchants could carry a greater variety of goods than they have done in the past. This can be done by buying a smaller quantity of each article and restocking more frequently. For example, a merchant can select the types and sizes of stoves especially suited to the needs of his customers and carry one of each type and size in stock. As soon as a stove is sold another one is immediately ordered to take its place. In this way the merchant gives his cus-

tomers the exact type of stoves desired and yet does not tie up a great amount of capital in this particular line of goods. The disadvantage of this plan is that the merchant located at a distance from his source of supply may not have the exact size or type of stove desired by a particular customer in stock just when the customer wants it. However, if out of stock, the local merchant will receive the stove as quickly as the mail order house could supply it and in most instances a great deal quicker.

Can meet mail order competition with mail orders.—The local merchant can also meet mail order competition with mail orders. He can obtain catalogs from mail order houses which sell to the merchants and when he hasn't the desired article in stock he can offer to order it for his customer. He can offer as quick delivery, as good a description of the goods, and generally as low a price as the customer could obtain if he ordered the goods himself from a mail order house selling direct to the consumers. As the merchant's offer relieves the customer of the details of making out and mailing the order, as the local merchant is responsible for the delivery of the merchandise in good condition, and perhaps also is willing to extend credit, he has more than an even chance of making the sale.

Can render higher type of service.—The local merchants are in a position to render many services which are out of the reach of the mail order houses. Orders by mail must generally be made without an opportunity of previously inspecting the goods. The

local merchant offers prompt delivery of goods, while the person ordering by mail must wait several days or weeks for his goods. This is especially important in the case of necessities and of repair parts. In the case of necessities ordering by mail involves the forecasting of every need several weeks in advance. Experience has repeatedly shown that the great majority of people will not buy such goods in this way if a more convenient source of supply is available. Prompt delivery of repair parts is very important. A farmer breaks a certain part of his binder in the midst of harvest. A delay of a few hours is expensive and a delay of a week may mean the loss of a large part of his crop. The carrying of such repair parts by the local dealer is a distinct and valuable service. On their part, however, the mail order houses claim that the local dealers seldom carry a full line of repairs and are often unable to furnish the particular part desired. In such cases the mail order houses say that their ability to ship such parts immediately by mail from conveniently located warehouses gets the repairs to the farmers quicker than the dealers can by ordering from the manufacturers or wholesalers.

Exchanges and adjustments can be made much more quickly when goods are purchased at home than when ordered by mail from a distant city.

Extension of Credit.—Another service very generally rendered by the rural merchants is the extension of credit. It is a well-known fact that the farmers have been accustomed to buy their supplies

very largely on long term credits and many of them could not have bought on any other basis. In the one-crop sections of the West and South, payment once a year is still the rule. It should, however, be noted that during the great war many dealers tightened up on their terms of credit (e.g. started to charge interest) or went on a cash basis. Out of 1,125 county agents reporting to the United States Department of Agriculture, 498, or over 44 per cent, reported that during the war the dealers tightened up on the credit extended to the farmers on the purchase of farm operating equipment; while only 54, or 4.8 per cent, of these reported a more liberal policy on the part of the dealers. This policy although made possible by the increased prosperity of the farmer, was forced on the dealers by the manufacturers who demanded more prompt payment than formerly. Out of 7,399 rural dealers reporting to the Federal Trade Commission over 75 per cent reported shortened credit from the manufacturers in the purchase of farm implements.[10] Yet the sale of goods on credit is still common among the rural merchants. The farmer could not have obtained this credit service from the mail order houses even if some of them have come to sell on credit.

Higher cost of goods.—The rural merchants often cannot obtain their goods as cheaply as the mail order houses, who can buy in large quantities direct from the manufacturers or can manufacture

[10] Federal Trade Commission: "Causes of High Prices of Farm Implements," p. 73.

the goods in their own factories. By careful buying the local merchants frequently can meet mail order prices but very often they are unable to do so, even when the transportation costs are added to the prices of the mail order catalogs. They should, however, to a very large extent be able to overcome this disadvantage in price by superior services which they are able to render. The officer of a mid-western dealers' association was quoted above as saying that he could take care of a difference of 10 or 15 per cent because of the service he rendered and because of his ability to make more prompt deliveries. Whether 10 or 15 per cent represents the actual value of the dealer's service to the consumers or not it cannot be denied that the dealer is able to render valuable services which in many instances counterbalance the lower price of the mail order house.

Appeal to loyalty.—Too often the local merchants try to hold business by telling the farmers that it is their duty to trade at home. This is poor policy as the farmers often have little in common with the merchants and feel under no obligation to support them. The farmer is under no obligation to spend his hard-earned money at any particular place. The local merchants should realize that if they want the farmer's business they must deserve it on the quality and price of the goods sold and on the services rendered.

Efficiency in rendering service only claim for existence.—The local merchants claim that "to the re-

tail dealer belongs the retail trade." They regard the mail order houses as being irregular or "illegitimate" factors. They often refuse to purchase goods from manufacturers who also sell to mail order firms. The only claim that either the local store or the mail order house has for existence is that it renders a service more efficiently than any one else. If the local dealer does not perform a useful service as efficiently as can be done by others he has no reason to be in business. If some dealers are driven out of business by mail order competition some temporary suffering may result, just as suffering may follow the introduction of labor-saving machines which throw men out of work. This, however, is not an argument against the use of labor-saving machinery. The mail order houses are too well established to be longer regarded as experiments. The sooner the dealers quit asking for sympathy and go after sales on a business basis the better off they will be.[11]

THE FUTURE OF THE MAIL ORDER HOUSE

The mail order houses have had a rapid growth and are now a well-established part of the merchandising machinery of the country. There are, however, several indications that perhaps their period of rapid growth is at an end. First, several department stores have discontinued their mail order departments. Second: the automobile tends to con-

[11] On this subject see Ch. VIII of the Federal Trade Commission's Report: "Causes of High Prices of Farm Implements."

centrate the rural trade in larger towns, where the stores are able to carry larger stocks of goods. The increased sales of the stores in these towns places them in a better position to meet the prices of the mail order houses. The automobile also enables more people to visit the cities and increases the competition between the mail order houses and the city stores. Third, the tendency of the large chain stores to open branches in the smaller towns in the rural districts. Such stores often buy on as advantageous terms as the mail order houses and are able to sell as cheaply and at the same time offer the consumers a convenient source of supply and the opportunity of inspecting goods before buying. It is true that so far most such chains handle groceries, drugs, novelties, or tobacco, which are perhaps not the most important lines to the mail order houses.

CHAPTER XII—QUESTIONS

1. Mrs. Jones finds that after paying the transportation costs she can obtain muslin for 10 per cent. less from a mail order house than from a local dealer. What would be the advantages and disadvantages of buying from the mail order house as compared with the local dealer? Would your answer be the same is the case of groceries? shoes? hats? rugs?
2. Farmer Shultz finds that he can obtain a plow for 20 per cent. less (after paying the freight) from a mail order house than from the local dealer. Should he buy from the mail order house? Why or why not? Would your answer be the same in the case of a mowing machine? A gasoline engine? Nails? A set of blacksmith's tools?
3. The Giant Mercantile Co. handles general merchandise in a Kentucky town of 1,000 people. In recent years more and more of its customers have been ordering goods by mail. The loss of business is becoming serious. The farmers do not respond

to the slogan "trade at home." The Giant Co. must purchase practically all of its goods from wholesalers and is unable to meet mail order prices (delivered) on many articles. Outline the policies that this concern should follow to improve its business.

4. The Farmers Supply Co. is located in a Kansas town of 5,000 population. It handles all kinds of farm operating equipment. It handles well-known brands of implements and buys most of its goods direct from the manufacturers. It has enjoyed a large trade with the farmers for many years. Due to the high prices existing in recent years more and more of the farmers have been led, by the lower prices, to order farm equipment from the mail order houses. Can the Farmers Supply Co. stop this practice? If so, how? What policies should it pursue under the conditions?
5. The Blank Department Store is located in a large city. It has an old established mail order department. During the war it was very hard to keep all the articles listed in the catalog in stock. It was often necessary to substitute other articles for those ordered or to refuse the orders. After the war it was hard to issue catalogs due to rapidly changing prices. Due to these reasons the store stopped issuing catalogs and in place sends out monthly folders advertising a limited list of articles. The mail order business is much smaller than it was 10 years ago. The managers are now debating whether to discontinue the mail order department or to resume the issuance of catalogs and conduct an active campaign to build a mail order business large enough to be profitable? Which policy do you recommend? Give your reasons.
6. The X Carpet Co. produces a standard grade of carpets and rugs. It is dissatisfied with the sales made to the dealers and considers marketing its product direct to the consumers by mail. Would this be practicable? If so, outline methods to be followed. If not, why?
7. The Creamery Co. produces a high grade of dairymen's supplies but due to its poor marketing methods its sales have been decreasing. Could it stimulate its sales by advertising and direct sales to the dairy farmers? Why or why not? Would your answer be the same if the company manufactured a line of cosmetics? A grocery line made up of baking powder, spices, and soaps?

Chapter XIII

RETAIL TYPES—(*Continued*)

5. THE CHAIN STORE

Definition.—By a chain store is meant a number of stores under a common ownership and management. The number of stores necessary to constitute a chain is not clearly established. It would seem that at least three stores are required to make a chain. Thomas' Official Grocery Register considers that five grocery stores constitute a chain. Perhaps the distinction between a chain store and any other store is in the method of operation rather than in the number of stores under a common ownership. A company may own several stores, but if no common policy is followed and each store is operated separately without using "chain store methods" the common ownership may not class these stores as a "chain." On the other hand a much smaller number of stores operating under a common policy, using uniform methods of display and selling at "cut prices" might be considered as a chain.

Growth of chain stores.—The growth of the chain stores has been briefly sketched in a previous chapter. Although not of recent origin they have had their principal growth during the past fifteen years. The rapid growth of this type of stores has forced thousands of individually owned stores out of business and has led some people to predict that none except the very large unit or individual stores could

withstand their competition. Such predictions seem to have been at least premature. The rise of the chain stores has, however, been the most conspicuous recent development in the field of retail merchandising.

The growth of the chain stores may be illustrated by a few figures. The S. S. Kresge Co. had eight stores in 1907 and 179 stores on May 1, 1920. The McCrory Stores Corporation had 69 stores in 1911, compared with 154 stores in 1919. The S. H. Kress & Co. started in 1896 and had 145 stores at the end of 1919. The Great Atlantic and Pacific Tea Co. had 200 stores in 1905; 350 stores in 1910; 2,100 stores in 1915, and over 5,000 stores at the end of 1920. The Kroeger Grocery and Baking Co. had 68 stores in 1905; 145 stores in 1910, and over 1,000 stores in 1919, including both grocery and meat stores. The sales of this chain of stores increased from $2,743,000 in 1905, to $34,550,000 in 1919. The first Piggly Wiggly store was opened on Sept. 12, 1916, and within three years over 500 stores were in operation. The United Cigar Stores started in 1901 and now has over 1,200 stores.

Importance of chain stores.—There is hardly a city of any size in the United States that does not have at least one chain of stores and most of them have stores operated by several chains. Some estimates have placed the number of chain store systems as high as 10,000. The exact number cannot be given for the reason that no common defini-

tion exists as to just what constitutes a chain and new chains are being started so rapidly that any figures that might be compiled would soon be out of date. Perhaps an idea of the importance of chain stores can be obtained by considering the sales of a few typical systems. The figures are for 1919 and the sales are stated in thousands of dollars.

Name	*No. of Stores* [1]	*Sales* [2]
Grocery Stores:		
The Great Atlantic & Pacific Tea Co.	4,246	$194,647
American Stores Co	1,152	76,402
Kroeger Grocery & Baking Co.	1,005	34,550
John T. Connor Co	200	8,454
Jones Bros. Tea Co. Inc. (including Globe Grocery Stores Inc. and Grand Union Tea Co.)	726	22,231
Piggly Wiggly Stores Inc. (1920)	500	*11,444
* Six months' sales.		
Novelty Stores:		
F. W. Woolworth Co	1,081	$119,496
McCrory Stores Corporation	154	11,487
S. S. Kresge Co	179	42,668
S. H. Kress Co	144	25,244
W. T. Grant Co. (1c to $1.00 Dept. Stores)	35	6,029
Other Stores:		
Louis K. Liggett Co. (drug stores)	236	28,795
United Cigar Stores	1,200	61,874
J. C. Penny (Department Stores)[3]	312	50,000

[1] Some of these figures are approximate and all are not for the same date. Some include stores established in the first few months of 1920.

[2] 000 omitted.

[3] J. C. Penny, *System*, Feb., 1921, Moody's Manual reports 197 stores with sales of $28,784,000. Penny's figures apparently include affiliated stores.

Edward A. Filene, President of Wm. Filene's Sons Co., Boston, estimated that in 1918 there were 4,000 chains with 65,000 stores handling 6 per cent of the total retail trade of the United States.[4]

An official of a grocer's association estimates that 15 per cent of all grocery stores in the country are chain stores. This means over 30,000 chain stores. Thomas' Grocery Register for 1919, lists 216 chains of grocery stores, some subsidiary companies controlled by larger chains being included. Of these 216 chains, 55 are rated at over $100,000. There are over 9,000 separate retail stores operated by 154 of these chains. The total number of separate stores may be estimated at 10,000. If their sales averaged $50,000 each their total annual sales would amount to $500,000,000. The author does not know how complete this list is, but noted several omissions, so that the sales of grocery chains are likely much above this figure. The majority of these stores are located in the East, Middle West, Upper South, and California. There are few chain grocery stores in the northwest, none being reported in Washington, Oregon, Idaho, Montana, North Dakota, South Dakota or Nebraska and few in Minnesota and Wisconsin. This, however, does not mean that chain store organizations with headquarters in other States do not have stores in these States.

A chain store official has estimated that the sales

[4] See *System*, March, 1920.

of the grocery, drug, and tobacco chains amounted to over a billion dollars in 1920.[5] The estimated sales of the grocery chains given above which covers only a part of the stores, amounted to half this amount. Allowing for the many grocery chains not included in this estimate, for the drug and cigar chains and for the many new stores opened during the year this estimate appears to be conservative. The sales of the chain stores handling such other items as shoes, hats, clothing, hosiery, gloves, shirts, candy, bread, foods (restaurants), sewing machines, lumber, farm implements, fruits and vegetables, butter and eggs, and other commodities would certainly add several hundred million dollars more. From these figures we may conclude that the chain stores are selling between 5 to 10 per cent of the total amount of merchandise sold by retailers.

CLASSES OF CHAIN STORES

Ownership.—Chain stores have been classified in several different ways. As to ownership, chain stores have been classified as retail, manufacturers', jobbers', cooperative, and retail buying associations.[6] Perhaps strictly speaking the two latter classes should not be considered chain stores. The coop-

[5] Robert J. Smythe, of the Jones Bros. Tea Co., writing in the *Journal of Commerce* of Oct. 30, 1920.

[6] As an example of the latter the American Druggist Syndicate, an association of 16,000 retail drug stores, might be mentioned.—Butler: "Marketing Methods," p. 84.

erative stores are owned by the consumers and at times are bound together through a common buying organization. The cooperative stores will be discussed in a later chapter devoted to cooperative marketing.

Retail chains.—The majority of our chains come in the first class, retail organizations operating several stores. Such chains generally operate their own warehouses and perform the functions of the wholesaler. As they become large they tend to enter the manufacturing field. For example the Acme Tea Co. prior to its absorption by the American Stores Co. manufactured 10 per cent of the goods sold. The Kroeger Grocery and Baking Co. has its own bakeries, abattoir, candy factory, extract and baking powder factory, and preserve factory. The United Retail Stores Corporation which owns the controlling interest in the United Cigar Stores, the United Retail Stores Candy Stores, and Gilmers, Inc., was organized to establish a system of manufacturing businesses and retail chain stores. The Schulte Retail Stores Corporation operates three cigar factories, the United Drug Co. manufactures a very large part of the goods sold by the Liggett Drug Stores, which it controls. The Jones Bros. Tea Co. processes or manufactures a large part of the goods sold by its stores and those of its subsidiaries. Many of the retail chains, however, do little or no manufacturing.

Manufacturers' chains. — Among the manufac-

turers' chains must be mentioned the stores of the Winchester Co., the Singer Sewing Machine Co.; many of the chains selling shoes, such as W. L. Douglas, Hanan and Son, Regal Shoe Co., etc., and many of the candy chains, for example, Huyler's, Martha Washington, Nunnally, etc. A few years ago many manufacturers started to establish their own retail stores but they found that the amount of capital required was so large and the problems of management so serious that the number of such stores did not increase as rapidly as had been expected. Some manufacturers, however, maintain one or more stores in order to come into direct contact with the consumers and to develop methods for use by the retailers handling their products.

The McElwain Shoe Stores furnish an example of a manufacturer's chain of wholesale stores. The branch houses of the Chicago meat packers or farm implement manufacturers may be said to come in the same classification.

Jobbers' retail chains.—The ownership of jobbers' chains of retail stores is often concealed. There is also a likelihood that the jobber will become only a warehouse for his stores and the chain come to be regarded as a retail chain. The wholesale grocers, to prevent their own elimination by the chain stores, have discussed the acquirement and operation of their own chains of retail stores. The chain started by a Chicago wholesaler is reported to have 400 stores doing an annual business of $18,000,000.

Location.—Chain stores may be classed as national or local. Perhaps there is no chain that has stores in every State, but there are several that have stores in so many States that they deserve to be classed as national chains. In this class might be mentioned the Great Atlantic and Pacific Tea Co.; F. W. Woolworth Co.; S. S. Kresge Co.; the United Cigar Stores; the Schulte Cigar Stores; the J. C. Penny Co. stores, the Jones Bros. Tea Co., the Liggett Drug Stores, the Piggly Wiggly self-serve grocery stores; the Thompson restaurants, the Wormser hat stores, and others. Almost every city of any size furnishes examples of local chains, handling either groceries or drugs. Many chains spread out in the territory surrounding the cities of their origin and yet do not cover enough territory to be classed as national chains. There are many such chains. The American Stores Co., with stores not only in Philadelphia but in eastern Pennsylvania and the adjoining sections of New Jersey, Maryland and Delaware, is an example of such a chain.

Wholesale.—Chain stores are generally considered as being retail stores. In a sense, however, a wholesale concern with several branches located in different cities and states might be considered as a chain store. There are several such wholesale concerns, for example, the National Grocer Co., Austin Nichols Co., Butler Bros. and the National Drug and Chemical Co., of Canada, Ltd. Several of the cooperative houses mentioned in the chapter on Wholesale Dealers might come in this category.

Wholesale concerns, however, have problems different from those of the retailers and are not ordinarily thought of as chain stores.

Department stores. —Most chain stores are specialty stores. There are, however, a few chains of department stores. The Associated Dry Goods Co. owns nine department stores, several of them being among the larger city department stores in the country. All but one are located in the east.[7] The May Department Stores Co. controls four department stores in middle western cities. The Hudson Bay Co. is reported as establishing a chain of department stores in Canada. Among the chains of small town department (or dry goods) stores might be mentioned the Penny Stores in the West, the Miller stores in the Southern Appalachain district, and Gilmers, Inc. (controlled by the United Retail Stores Corporation) in the Carolinas and Virginia.

General stores.—The stores operated by the supply companies of some of the large mining companies at their various mines may be considered as chains of general stores.

KINDS OF GOODS HANDLED

Chains of stores are found handling almost every conceivable type of merchandise from gasoline to

[7] The controlled stores are J. N. Adams & Co., the Wm. Hengerer Co., Buffalo; Lord & Taylor, C. G. Gunther's Sons, and James McCreery, New York; Powers Mercantile Co., Minneapolis; Hahne & Co., Newark; Stewart Dry Goods Co., Louisville; and Stewart & Co., Baltimore.

farm implements, from bread to sewing machines, and from hosiery to hats.

Groceries.—Perhaps more chains of stores are found handling groceries than any other class of merchandise. The grocery chains have had a very rapid growth during the past ten years and are still growing very rapidly. Until a few years ago most of the grocery chains were found in the East but during the past six years they have spread west and south until at present there are chains as far west as California and as far south as the Gulf of Mexico.

Drugs.—Many chains have been started for the sale of drugs. The Liggett Stores, previously mentioned, are perhaps the most widely known. There are local chains in almost every section of the country and in almost every city of any size. Among such local, or sectional, chains might be mentioned the Owl Drug Co. on the Pacific Coast, the Dow Drug Co. in Cincinnati, the Squire Drug Co. in Syracuse, and the May Drug Co. in Pittsburgh.

Five and ten cent stores.—The novelty, or as familiarly called the five and ten cent stores, were among the first chains to attract widespread attention. They do not seem to be growing quite as rapidly as some other classes of chains at the present time. The best-known of these chains are F. W. Woolworth Co., S. S. Kresge Co., S. H. Kress Co. and the McCrory Stores Corporation. The W. T. Grant Co., operating one cent to one dollar stores, might also be mentioned as coming in this class.

Cigars and tobacco.—The United Cigar Stores and the Schulte Retail Stores Corporation are among the best-known chains handling cigars and tobacco but there are several local or sectional chains.

Candy.—There are many chain stores handling candy. Many of these are manufacturers' chains. Among the candy chains might be mentioned Huyler's, Reymers, (Pittsburgh), Martha Washington, U. R. S. Candy Stores, etc.

Shoes.—Many of the chains of shoe stores are owned by the manufacturers. Among the better known shoe chains are: W. L. Douglas Shoe Co., Regal Shoe Co., Hanover Shoe Co., Hanan & Son,, Sorosis Shoe Co., and Florsheim Shoe Co.

Hats.—Kaufman Bros., Truly Warner, Wormser, and Sarnoff Irving are examples of chains of specialty hat stores.

Restaurants.—There are many chains of restaurants. Some are national and some are local. The Childs' Restaurants were among the first to attract general attention. The Thompson and the Baltimore lunch rooms are widely distributed.

Other lines.—Chains of bakeries and gasoline stations are common. There seems to be one or more chains handling almost every conceivable class of goods. The Singer Sewing Machine Co. has an extensive chain of stores for the sale of its machines. The Winchester Co. has established a chain of retail stores for the sale of sporting goods and other items of hardware. The Union News Co has several hundred news stands. The Mandan Mercantile Co.

operates a chain of farm implement stores and lumber yards in the Dakotas. There are chains of stores handling fruits and vegetables and other chains handling butter and eggs. The Sherwin Williams Paint Co. operates a chain of retail paint stores. The list could be increased but enough examples have been given to show the scope of the chain store field.

ADVANTAGES OF CHAIN STORES

Buying power.—The ability of the chain stores to secure their goods cheaply is probably their most important advantage and perhaps the only advantage that is inherent in their operation. The origin of many chains is, however, based on operating efficiency rather than on the low cost of goods. The parent store could buy no more cheaply than its competitors except by the bargaining ability of the proprietor and the taking of cash discounts. When several branches were established the store insisted on lower prices and was in a position to secure quantity discounts. The next step was to eliminate the wholesaler and buy direct from the manufacturers through the latter's agents or brokers. In order to do this a wholesale department was often organized as many manufacturers refused to sell to any except wholesalers. When several stores were in operation a wholesale or distributing warehouse was necessary, anyway.

The buying ability of different chains varies widely. Some of the smaller local chains may have to buy on the same basis as other retailers. The large chains are, however, able to buy on very favorable terms.

They are able to buy in large quantities and pay cash so that they are able to buy at "inside prices," or to secure the largest quantity and cash discounts. They are in a position to buy direct from the manufacturers and hence buy on the same, or even better terms than the wholesale dealers. They are able to pay cash and hence can get price concessions from manufacturers who are forced to realize on goods quickly. Some of the chain store organizations have very efficient purchasing departments and skillful buyers who strive to buy at the lowest possible prices. They are on the lookout for bargains and odd lots and may pick up goods in this way at exceptionally low prices. Their buyers after securing the seller's lowest prices may insist on some additional concession, such as an extra commission or a forward dating of the bill. The buyers may wait until the sellers are extremely anxious to sell and then buy at a price slightly below the market. The chain store buyers seem to be a match for, if not superior to, any other class of buyers in securing price concessions.

The large chain stores may be able to contract for the entire output of certain factories and secure the low prices obtainable in this way. The tendency of some chain stores to manufacture their own goods has already been mentioned. When goods are manufactured the cost is presumably lower than it would be if the goods were purchased from other manufacturers.

The manufacturers operating their own retail stores can save the factory selling expense and also

the selling expenses and profits of the wholesaler, if the class of goods sold ordinarily passes through the hands of wholesale dealers. If such manufacturers have as low a cost of doing business as the competing stores, the manufacturers can either keep these savings as profits or sell their goods cheaper than the competing retail stores.

Quick turnovers.—Most of the chain stores secure a quick stock turnover by efficient stock-keeping methods. Accurate records are kept of sales, purchases and often of inventories. The individual stores carry relatively small stocks of goods as deliveries are made frequently from the warehouses. This policy enables the stores to always have fresh goods in stock, which is an important factor in stimulating sales. A quick turnover is of especial advantage during a period of falling prices. The chain grocery stores often turn their stock from six to twelve times a year, including both the wholesale warehouses and the retail stores. A stock turnover by the chain store is equivalent to two turnovers when the goods are handled by the wholesaler and the retailer. The average turnover by wholesale grocers is given as 5.2 times per year. This means that it requires 70 days for them to make one complete turnover. The average turnover by the retail grocers is given as 7.9 times per year. This means a turnover every 46 days. Thus it requires 116 days for a complete turnover by both the wholesaler and retailer. A chain store operating its own wholesale warehouse and turning its stock 7 times a year requires only 52 days

to effect a complete turnover. The chain store thus turns its stock in less than half the time required by the wholesaler and retailer. Stated another way groceries sold through the chain stores reach the consumers in less than half the time required when they are sold by the wholesalers and retailers.[8] During 1919 the American Stores Co. turned its stock 9.3 times, the John T. Connor Co. (Boston), 7.2 times, and the Kroeger Grocery and Baking Co., 6.2 times. The five and ten cent novelty stores appear to have a much slower rate turnover, turning their stock only three to five times a year.

The advantage of quick stock turnovers is not inherent in the chain stores. An individually owned store by using similar methods of purchasing, stock-keeping and selling can turn its stock over as fast if not faster than the chain stores. The fact that the individual stores have not done so is due to their own inefficiency.

Efficient Management.—Most of the chain stores have been efficiently managed. The small ones are under the direct supervision of the proprietor and the large ones are big enough to employ experts to manage the various departments and to work out new and improved methods. The expert buyers have already been mentioned. Such stores can also employ experts to train their salesmen, to handle their advertising, their window displays, their stockkeep-

[8] When goods are manufactured or processed the chain stores' turnover is equivalent to three turnovers.

ing methods, their accounting systems, and their real estate departments.

Such chains generally have their methods of window display and store arrangement standardized. An expert works out window displays, for example, which are used by all the stores. Such displays are often better than those of the individual stores, as the owners of the latter ordinarily do not have much time to devote to such matters and besides they lack the skill of the specialist. The same is often true of advertising, stock display, store arrangement, etc.

Store managers.—In order to maintain efficiency a chain must secure efficient managers for all its stores. A good manager generally means a successful store and a poor manager means a failure. It is no easy matter to secure efficient managers for a large number of stores. The growth of some chains has been retarded by the time taken to secure and train men to manage the new stores. It would seem that the individual stores managed by their owners would be more efficient than competing chain stores managed by hired employees. It is proverbial that an owner will give closer attention to business than an employee. The chain stores, however, have generally met this problem by giving the managers an interest in the success of the stores. The managers are paid a small salary and given a certain percentage of the sales or profits. The managers of grocery stores, for example, may be paid a salary of $20 to $40 a week and in addition given a sum equal to one per cent of the total sales. This gives the

manager a very immediate interest in the sales of the store and usually secures his close attention to business. In addition to this the managers of such stores are generally under very close supervision. One large grocery chain has a supervisor to every ten or twenty stores.

The chain stores have had their greatest development in the sale of simple and well standardized lines of goods, such as groceries, or in highly specialized lines such as cigars, candy, or men's hats. Relatively few chains have undertaken the operation of stores handling a large variety of more or less complex goods, such as hardware, dry goods, jewelry, and clothing. The management problem of such stores are much more difficult. The chains that have entered these fields have given the managers large interests in the success of the stores, in some instances making them partners. In this way close attention to business and efficient management has been secured. In the case of city department stores, however, no very great benefits appear to be derived from the centralized ownership of several stores. The problem of managing such stores is not changed by the ownership, although each store can benefit from the experiences of the others and some methods may be standardized. Perhaps, also, purchases can be made on somewhat better terms, or a saving realized in the pay of buyers, although such stores are generally large enough to buy on pretty good terms while buying individually.

The efficient management of the chain stores is

not an inherent advantage. There is no reason why the individually owned stores cannot be managed with equal or greater efficiency.

Advertising.—The chain stores are in a position to advertise to better advantage than the individual stores. With stores in all parts of the city no waste circulation is paid for when advertisements are carried in the newspapers as in the case with the individual stores. This, however, is an advantage only to such chains as have several stores in the same city. Shoe, drug, or candy chains with only one store in a city are no better off, in this respect, than any other centrally located specialty store.

The large chain stores are also in a position to employ experts to handle their advertising. Some chain stores are liberal users of newspaper space, at times almost vying with the department stores in the amount of space used. Other chains do little or no newspaper advertising, depending almost entirely on low prices, window displays, and posters to attract buyers to their stores.

Rent.—Oftentimes the chain stores have an advantage over their competitors in the amount of rent paid for their store locations. The large chains have experts in charge of their real estate departments. They lease their locations only after careful study. Very often the people passing the prospective location are counted for several days and their character noted—whether shoppers, laborers, or office employees; whether on their way home from work, or strolling for pleasure, etc. An excellent location for

a cigar store, or a restaurant, might be a very poor location for a grocery store. If the number and character of the passers-by do not warrant the rent asked the location is refused and if the profits of any store do not justify the rent paid the location will be given up. A location may be refused at one time and rented a few years later because the number of people passing has increased.

The desired locations are often purchased or leased for a long term of years. Handling many such transactions the chain stores often drive better bargains than the individual merchant who makes only one or two real estate contracts during his business career. The chain stores often have subsidiary corporations to handle their real estate. The chain stores also use space more advantageously. From experience they know just how much space is needed for a given volume of business and they refuse to rent a room that is too large, or they will divide the room and sub-rent a part of it. To secure desirable locations it is often necessary to rent much more space than is needed and some stores make a practice of securing such locations and sub-renting the unneeded space. This is especially true of stores such as cigar and drug stores, desiring busy corner locations.

Individual dealers cannot afford to employ experts as is done by the large chain stores, but there is no reason why they cannot follow the same policies as those used by the chain stores in selecting locations for their stores.

Low cost of doing business.—The chain stores very often have lower operating costs than many of their competitors. They can often employ cheaper employees than other stores due to the fact that their methods are so highly standardized that little initiative is required of their employees. The rapid stock turnover also does much to reduce the percentage cost of doing busines for it allows a large volume of sales to be made without increasing rent, heat, light and other general expenses and ordinarily without a corresponding increase in the salaries of the salesforce. This is equivalent to saying that a retail business can, up to a certain point, be made a busines of decreasing costs, although such a result is by no means always attained by large stores. This subject is discussed at greater length in the next chapter. The lower percentage cost of doing business makes possible lower prices and the lower prices in turn tend to draw people to the store and increase sales. A considerable part of the success of many chain stores seems to be due to this tendency. Low prices stimulate sales and the increased volume of business helps to lower the percentage cost of doing business and hence to make possible the lower prices.

The advantages of cheaper labor, more rapid turnovers, cheaper rents, and judicious advertising do much to reduce the cost of doing business. The low cost of many chain stores is, however, to a large extent due to the fact that they operate on the economy, cash-carry, or non-service basis. This is especially true of the grocery chains.

Non-service method.—All chain stores do not operate on the non-service basis but this practice is so common among them that it is commonly regarded as the typical chain store method. The cash-carry method saves all delivery expenses, eliminates the cost of maintaining a credit department and making collections, prevents losses from bad debts, and reduces the amount of necessary bookkeeping. Sales for cash enables the store to secure the cash discounts on purchases and to save the interest on the capital tied up in accounts receivable. In the operation of grocery stores these economies appear to amount to an average of 3 or 4 per cent of sales as compared with stores furnishing credit and delivery services. Many individual stores now operate on the economy basis, many of them having adopted this method in order to meet the competition of the chain stores.

Self-serve stores.—In the attempt to further reduce operating expenses the self-serve store was developed. This method has been used for several years in the cafeterias and has recently been introduced in the operation of grocery stores. In such stores the goods are placed on shelves in easy reach of the customers and plainly marked with their prices. The customers pass through the store, select the desired goods and pay the cashier as they leave. No salesmen are required. The cashier and the clerks needed to replenish the stock on the shelves and to keep the store in order are all that are needed except for the work of guarding against pilfering, purchasing, supervision, and general management. The

great saving under this system is the saving in the salaries of the salesforce, which is the largest item of expense in most retail stores. Such salaries amount to from 5 to 8 per cent of sales in many retail stores. The self-serve stores eliminate this expense but substitute the expenses of a cashier and of attendants to replenish the stock; make up packages of goods that have to be wrapped, such as meats, cheese, fruits and vegetables; and to guard against pilfering. It is difficult to make any general statement as to the amount of the net saving. In some instances it seems to be considerable, say 3 to 5 per cent of sales, and in other instances it appears to be much less. If the volume of sales is large and little trouble is experienced with pilfering the saving is likely to be large. If this method makes possible lower prices, these prices will likely stimulate sales and the increased sales will tend to lower the relative cost of doing business. This fact appears to explain the exceptionally low operating costs claimed by some self-serve stores.

There are many of these self-serve stores, some of them being individually owned and operated, but the chain of Piggly Wiggly Stores, Inc., with a patented name and system is probably the most widely known.

The Bynn Yann stores, of which there were 180 in 1920, attempted to reduce the wages of employees in a different way.[9] The stock was so arranged that the salesman could reach any article by taking only

[9] *Journal of Commerce*, April 9, 1921.

a few steps. Another method of reducing the number of salesmen was tried with the organization of the "All Package" stores in 1915. The failure of both of these concerns was apparently due to inefficient management and too rapid expansion rather than any defects in their ideas of handling goods. A great many of the grocery chains attempt to reduce the quantity of un-packaged goods. Merchandise that must be weighed or measured results, not only in a waste and deterioration of the goods, but consumes the time of the salesforce.

Application of the self-serve method.—There is nothing about the non-service or self-serve methods that especially adapts them to use by chain stores. They are considered under the discussion of chain stores simply because they have been used principally by the chain stores. They can be used just as well by the individually owned and operated stores. The self-serve method at first thought appears to be limited in its application to standardized goods that can be put in a few standard sized packages. But is not any merchant who marks his goods in plain prices and displays them so that the prospective customers can examine them easily and without the assistance of a salesperson making use of the same principle? In the sale of many goods, however, the customers require some assistance or advice from the salesmen as to sizes, fits, styles, or qualities.

Limitation on use of economy methods.—The cash-carry method, when combined with low prices, has become very popular. There are, however, many

people who desire delivery service, credit service or both. The wealthy very often desire both. The poor at times, must buy on credit, and the busy housewife often desires delivery service. The cash-carry store cannot cater to all members of the community. To meet this situation, some merchants adopt the "three-way" price plan. For example, goods may be priced on a "credit carry" basis and a discount allowed for all cash payments. A special charge, of say, ten or twenty cents is then made for all deliveries. Under this plan one charge is made for the goods, another for credit, and a third for delivery. Other stores use the "two-way" plan, one charge being made for the goods and an extra charge for delivery, no special charge being for credit when granted. Chain stores sometimes adopt such methods but the individual store has the advantage here as it should be in closer touch with its customers and can adopt a method especially suited to the needs of its patrons.

Reduces wholesaling expenses.—It has already been stated that the large chain stores, commonly buy direct from the manufacturers, but that they must maintain wholesale warehouses and distribute the goods to their retail stores. The expenses of operating a chain store warehouse and delivery system is much less than the cost of operating an independent wholesale establishment. This is true because the selling expenses, losses from bad debts, and the expenses of a credit and collection department are eliminated and the expenses of management and delivery are reduced. It is easy to see why the first three men-

tioned are eliminated. According to the Harvard studies[10] these expenses averaged over 2.5 per cent of sales in the wholesale grocery business. The expenses of management are reduced because the manager of a chain store warehouse does not need to be as high grade man as the head of an independent wholesale concern doing an equal volume of business. There are no salesmen to be supervised and no financial department to be managed. When a chain store has several stores in the same city it is in a position to effect a saving in the delivery of goods, due to the fact that it can lay out its routes carefully. It can arrange its deliveries so that all stores in one part of the city receive their goods one day, those in another section another day, and so on. The saving in the expenses of management and delivery would likely amount to 1 per cent of sales. Over against these savings must go the expenses of the supervisors over the various retail units and the cost of checking or revising the orders from the local managers. The net saving in the wholesale distribution of groceries apparently averages about 3 per cent of sales, or over one-third the average total expenses of the wholesale grocers.

Total expenses of chain stores.—The total expense of the chain stores, at least of the larger ones, include the expenses of the wholesale warehouses and retail stores and sometimes of a certain amount of manufacturing. In spite of this they are often lower

[10] See "Bulletins Nos. 9, 14 and 19," of the Bureau of Business Research of Harvard University.

than the expenses of the individual retailers. In the sale of groceries, for example, the Harvard studies have shown the common operating expenses of grocery stores as 16.5 per cent in 1915 and 14 per cent in 1918[11] while the common expenses of the chain grocery stores are reported to be from 10 to 14 per cent. The Piggly Wiggly self-service stores claim expenses of less than 5 per cent but this figure does not apparently include the expenses of operating wholesale warehouses in all instances.[12] The expenses of the chain stores usually cover stores operating on the economy basis for which reason they are not strictly comparable with the expenses of individual grocers furnishing a much larger amount of service. After all factors are considered, the fact remains that the chain stores ordinarily have lower total expenses than the individually owned and operated stores. The expenses of retailing will be discussed more fully in the next chapter.

Low prices.—The ability to buy their goods more cheaply combined with the lower operating expenses enables most chain stores to undersell their competitors. In fact, the growth of the chain stores has been due largely to their low prices. It must not be inferred from this that they handle goods of a poor qual-

[11] See "Bulletins" Nos. 5 and 13.

[12] The expenses of the American Stores Co. averaged 11.9 per cent. in 1919 and 12.3 per cent. in 1918. The John T. Connor Stores had expenses of 14.4 per cent. in 1919; while the expenses of the Kroeger Grocery and Baking Co. amounted to 13.6 per cent. in this year. These expenses apparently cover the expenses of retailing, of the wholesale distribution, and of some manufacturing.

ity. As a matter of fact, many of them handle goods of a high quality. Some chains specialize on high grade goods and others on medium or low grade goods. Park and Tilford, for example, claim to have the largest trade in high-grade groceries in New York City.

The rapid rise of the chain stores in the grocery field is explained partly by the fact that the rising cost of living has forced many people to economize on their grocery bills and has caused them to welcome any stores that made such economy possible. If we should have a long period of falling prices it will be interesting to see if the grocery chains continue their rapid growth. Their more rapid stock turnover may, however, enable them to grow as rapidly as ever.

It must not be inferred that the prices of chain stores are always lower than the prices of individual stores. The opposite is not infrequently true. The author's own observations indicate that the large grocery chains generally have a marked advantage over the small independent stores in the sale of staple groceries but that many individually owned or unit stores can meet their prices and very often undersell them on fruits, vegetables, meats, butter, eggs, etc. Many chains do not handle such perishable foods and when handled such goods are often bought locally which means that the chain stores cannot get the full advantage of large concentrated purchases as they can with staple or less perishable goods.

Cut prices.—Many chain stores follow the so called "cut-price" policy. That is, they sell certain

well-known goods at very low prices to attract people to their stores and give the impression of selling goods cheaply. The wisdom and ethics of such a policy will be discussed in a later chapter. This policy is, however, not limited to the chain stores. It has been used extensively by the department stores as well as by many other "cut-price" stores. The chain stores only adopted a policy already widely used.

Private brands.—Some large chain stores are coming to sell a large part of their goods under their own brands. These brands will be an asset to the extent that they become widely and favorably known.

DISADVANTAGES OF THE CHAIN STORES

Difficulties in management.—The difficulties in securing efficient management and close attention to business from hired employees has already been mentioned. Most of the chain stores have, apparently, been efficiently managed up to this time, but the danger of losses resulting from poor managers is always present. Poor management has been the reason assigned for the failure of certain chain stores in the past. It has previously been noted that companies organized to launch a large chain of stores have generally failed, due apparently to the fact that efficient organizations and trained store managers could not be secured.

Danger of too rapid expansion.—A rapidly growing concern may be so carried away with the idea of growth that it over-emphasizes the importance of size

and under-emphasizes the importance of operating efficiency. Failure is the natural result of such a policy. Rapidly growing concerns are always in danger of being obsessed with the idea of size.

Lack of personal touch.—The chain stores are at a disadvantage in establishing friendly relations with their customers as compared with the individually owned stores. A hired manager ordinarily does not take quite the same interest in patrons as the proprietor. Besides managers are changed frequently in some chains. Some chains standardize their stores to such an extent that a manager or trained salesman can be transferred from one store to another and take up his duties in the new store without losing more than a few minutes in getting his bearings.

Lack of personal service.—The chain store is in a poor position to render individual or personal service. There is little individuality in their stores. The individual retailers are in a better position to supply service—credit, delivery, advice, etc.—than the chain stores. The chain stores must often lose business simply because they cannot render the services desired by some people.

Increasing efficiency of individual retailers.—The increasing efficiency and antagonism of the individual retailers is threatening the future growth of the chain stores. The retailers are coming to realize that whining does no good and that chain store competition can be met only by increased efficiency. Many retailers have realized that the chain stores have succeeded largely because of efficiency and that if they want to

succeed they can well afford to study and adopt chain store methods. With the increasing efficiency of the retailers the growth of the chain stores becomes more difficult. There is no reason why an individual merchant cannot manage his store just as efficiently as the chain store, select his stock as carefully, display his goods as well, and secure as rapid a turnover of stock. When he does so, the only real advantage left to the chain store is a lower cost of goods due to greater buying power. The retailer is now trying to offset this disadvantage by cooperative buying. If the cooperative jobbing house succeeds in selling the individual retailers on a basis that will enable them to meet the chain store prices there is no real reason why they cannot hold their own with the chain store. The question then becomes one of the relative efficiency of the two types of dealers.

Danger of monopoly.—It is argued by some that there is danger of the chain stores forcing the individual stores out of business and then consolidating to form monopolies. Such a development in the grocery business would mean a monopoly in the distribution of food. It is true that the chain stores have been growing very rapidly and also that there have been several consolidations. The consolidation of the Acme Tea Co., the Childs Grocery Co., the George M. Dunlap Co., the Bell Co., and the Robinson & Crawford, grocery chains to form the American Stores Co. in 1917 was said to give the new company almost 50 per cent of the grocery business in Philadelphia. The formation of the United Retail Stores

Corporation with control of the United Cigar Stores, Gilmers, Inc. and the U. R. S. Candy Stores Inc. into which one or two older chains were merged has already been mentioned. The acquisition of the Riker Hegeman and the Riker-Jaynes drug chains by the L. K. Liggett Co. and the later absorption of the latter Company by the United Drug Company are well known. The purchase of the Globe Grocery Stores Inc., and the Grand Union Tea Co. by the Jones Bros. Tea Co. Inc., furnishes another example. There have been many similar consolidations but there is no need to mention more of them here.

Such consolidations, however, do not show any immediate danger of becoming monopolies. The Great Atlantic and Pacific Tea Co. did not enter Philadelphia until the consolidation of five of the large local chains to form the American Stores Co. After this consolidation, however, several hundred stores were opened by this company. It often happens that a concern formed by the consolidation of several companies does less business than the total formerly done by the constituent companies. The retail business is so easy to enter that it is difficult to see how it could be monopolized. Large profits in any trade or industry furnish the strongest inducement for others to enter.

It was estimated above that the chain stores do less than 10 per cent of the total retail business of the country. From this it can be seen that any prediction of a chain store monopoly is at least premature. It should, however, be noted that the chain

stores control a very much larger percentage of the grocery business in some sections of the country and that they are growing very rapidly. Looking at the problem from a different angle, it is reasonably certain that the anti-trust laws would be called into use if chain store consolidations should threaten to become monopolies.

A case in point is the recent agreement between the United States Department of Justice and the large Chicago meat packers under which the latter agreed to withdraw from the grocery business. The grocery business of these packers was growing so rapidly that many persons feared that they would drive the wholesale grocers out of business and seriously restrict competition. The Department of Justice would certainly act if consolidations of large chain stores would ever threaten to monopolize the grocery business. But, even granting that a monopoly should be formed for the retailing of foodstuffs, it is certain that if not broken up by law, it would be regulated as a public utility. Food is certainly as essential as transportation, gas, or electricity and the only reason that food dealers have not already been classed as public utilities and regulated accordingly is that competition among them has been so strong that the public has felt that it was better protected by such competition than it would be by the regulations of a public commission. During the past few years there have been not a few who have advocated price fixing and other regulations for all manufacturers and dealers in foodstuffs similar to those now governing the operation

of such industries as have already been classed as public utilities.

CONCLUSIONS AS TO CHAIN STORES

The chain stores have grown rapidly because on the one hand they carry goods in locations convenient to the buyers and sell at low prices, and on the other hand because they offer profits large enough to attract a high grade of managerial ability as well as the capital necessary for their expansion. In the retail distribution of goods, an organization with a large number of small units is more convenient to the consumers than an organization operating a single large unit. It also appears that the numerous small units are easier to supervise and capable of more efficient operation than the single large unit. The chain stores are growing so rapidly that it is very difficult to make any kind of a prediction as to their future. The cooperative jobbing houses owned by the individual grocers are also growing rapidly. If they succeed in selling the retailers on a basis that will more nearly allow the latter to meet chain store prices, the growth of the chain grocery stores may be checked. If, on the other hand, the cooperative jobbing houses fail in this, the continued growth of the chain stores may be expected. The chain stores in the future must meet increasing efficiency on the part of the unit stores.

CHAPTER XIII—QUESTIONS

1. Why have the chain stores grown so rapidly in recent years? Why are most chains composed of specialty stores?
2. What are the different classes of chain stores?

3. Enumerate the advantages and disadvantages of chain stores.
4. What part of the retail trade is now controlled by the chain stores? What do you think of the future growth of chain stores?
5. The Jones Grocery Co., located in the down town section of a city of several hundred thousand people, specializes in high-grade groceries, meats, fruits and vegetables. A very large part of its sales are made on credit and the goods delivered. The same prices are charged on cash-carry as on credit-delivery sales. There is no further room for growth in the present location and the company considers opening a chain of twelve or fifteen stores in the better class residential sections and the nearby suburbs. Would such expansion be advisable? What advantages would result from such expansion? What problems would have to be faced? If such stores were opened should they be operated on the present plan? On the cash-carry plan? Or on a two-way or a three-way plan?
6. The Cohen Dry Goods Co. is located in a western city of 50,000 people. It handles dry goods, notions, and women's ready-to wear clothing. It has been successful and has the necessary capital for expansion. Would it be preferable to expand the present store into a department store or to establish a chain of small dry goods stores in the smaller towns within a radius of 200 miles? What problems would be faced in each case?
7. The International Harvester Co. manufactures practically a full line of farm implements. It has its own warehouses and sells to retail dealers in all parts of the country. At the present time, by an agreement with the Department of Justice, its sales are limited to one dealer in each town. It has been suggested that it establish its own retail stores. Would this be advisable? What would be the advantages and disadvantages of such stores?
8. The wholesale grocers are threatened by the growth of the chain stores. It is proposed that the wholesale grocers establish their own retail stores in sections where the chain stores have as yet had little growth, thus checking the growth of the chain stores and saving themselves. Discuss this proposal.
9. Competition between the grocers in X, a town of 5,000 people, is very keen. The stores give practically unlimited credit and delivery service. As yet no chain stores have appeared in the

town. Would it be advisable for the Sunbeam Grocery Store to adopt some economy methods before the chain stores make their appearance? Why or why not? If such a change is decided upon what method would you recommend, cash-carry, three-way, or self-serve?

Chapter XIV

EXPENSES AND PROFITS OF RETAIL MERCHANTS

Importance.—Few subjects are of greater importance to the retail merchants than their expenses and profits. An accurate knowledge of their expenses is necessary to the intelligent pricing of their merchandise. The dealer who does not know his expenses may sell his goods on such a basis as not to allow a fair profit. Such a policy, if continued, will sooner or later lead to failure. Many failures may be traced to just such a policy, or rather the lack of policy. On the other hand the dealer who is ignorant of his operating expenses may place too high a price on his goods. In this case he will either overcharge the buyer and lay himself open to a charge of "profiteering," or he will lose business to other dealers having lower prices. A knowledge of his cost of doing business will allow him to discontinue lines upon which competition will not allow him to make a fair profit.

A study of his cost of doing business will also warn the merchant when his expenses are too high. A comparison of his costs with those of other dealers handling the same class of goods, will show the dealer when his expenses are dangerously high and also serve as a stimulus in the reduction of the expense percentage. When information is available a dealer may

compare his own percentage of expenses with the average of similar dealers or for the average of a group of the more efficient stores. Many dealers would have been saved from failure if they had made such comparisons.

Poor accounting methods of the dealers.—In spite of the importance of accurately knowing their expenses very few of the smaller dealers have in the past taken any interest in the subject. Most of them have been content at the end of each year to ascertain their net worth.[1]

Some have not even taken the trouble to do this. Very few small retailers have in the past kept books from which their expenses and profits could be accurately determined. The Federal Trade Commission estimated that only one out of every twenty-four of the 30,000 retail dealers handling farm implements had accurate records of their business[2] Conditions have been almost as bad among other classes of dealers. Within the past few years, however, a greater interest has been taken in accounting and the percentage of the retail dealers keeping adequate records is much larger than a few years ago. Trade associations, business periodicals, and government agencies have done much to arouse interest in the subject. The necessity of filling out income tax returns however,

[1] Net worth is the difference between the concern's assets and liabilities. Capital stock, surplus, undivided profits, and proprietorship accounts are not included as liabilities.

[2] Federal Trade Commission: "Causes of the High Prices of Farm Implements," 1920, p. 235.

has probably done more than anything else to force the small retailers to keep books. When the exemption was lowered during the war most of the retail merchants were required to make returns. For this reason many retailers installed accounting systems for the first time in 1918 and 1919.

In fairness to the retailers it must be stated that most of the larger stores and some few of the more efficient smaller stores have for many years kept full and satisfactory records of their business.

DEFINITIONS

Gross profit, or gross trading profit, is the difference between the net sales and the cost of the goods sold. Freight and cartage incurred in getting the goods into the store are generally included as a part of the cost of the goods. Trade discounts are deducted from list prices in arriving at the cost of the goods. There is no uniformity in the method of handling cash discounts. Some accountants hold that the taking of cash discounts is a financial, and not a trading matter, and that cash discounts taken should be excluded from gross profits and added to net trading profits in arriving at net income. Other accountants argue that cash discounts are allowed by most wholesalers and manufacturers and that most dealers take all or a part of these discounts regularly in the course of business and hence the cash discounts actually taken should be treated in the same way as trade discounts and deducted from the invoice prices in arriving at the cost of the goods.

Expense of doing business.—The expense or cost of doing business is made up of the various operating expenses, salaries of employees and of the owners when they are active in the business, rent, delivery expense, advertising expense, depreciation, repairs, office supplies, light, heat, power, losses from bad debts, etc. There is a lack of uniformity among dealers as to the items included as expense and a considerable difference of opinion exists among accountants as to whether certain items should be so included.

Some dealers pay themselves salaries and others get their remuneration from a distribution of profits or the payment of dividends. From the standpoint of the individual dealer it perhaps makes little difference what account is debited, but for the sake of uniformity it is generally agreed that reasonable salaries for the owner or owners active in the business should be included as an operating expense.

Property and license taxes are generally included as expense. Income taxes, however, are by their very nature a distribution of income and cannot properly be included as an operating expense.

Rent actually paid for buildings occupied is a part of expense. Rent on buildings owned by the dealer is sometimes also included as an expense. This was done in several of the studies conducted by the Harvard Bureau of Business Research for the sake of uniformity. In such cases rents on owned buildings were included as expenses but the values of the buildings were excluded from investment.

Is interest an expense?—There is a great difference of opinion as to the propriety of including interest on the capital investment as an expense. It is argued on the one side that the business man has no assurance of earning interest on his investment, that unless he conducts his business efficiently he has no right to receive interest, and hence that interest should come out of the "profits" and not be included as an operating expense. On the other hand it is argued that interest should be included as an expense for the reason that if the installation of labor-saving equipment is contemplated the interest on the investment must be compared with the saving in wages. It is further argued that interest on borrowed funds must actually be paid and hence is just as much an expense as the wages of the salesforce; and that interest on the owned investment should be included as an expense for the reason that no "profit" is made until the invested capital has received a fair rate of interest.

At first thought it might appear that interest actually paid on borrowed funds should be included as an expense while interest on the dealer's own capital should not be so included. Such a practice, however, renders difficult the comparison of statements of different dealers for the reason that the proportion of borrowed capital varies. An illustration will make this clear. A has a total investment of $10,000 of which $8,000 is owned and $2,000 borrowed. B has an investment of $10,000 but borrows $8,000 and owns only $2,000. At 6 per cent A pays $120 in-

terest a year while B pays $480. For the purposes of comparing the accounts of different concerns, borrowed and owned capital should be considered together.

In some of the earlier studies conducted by the Harvard Bureau of Business Research interest was not included as an expense, but in the recent studies interest on both borrowed funds and owned capital is included as an expense. In the investigations conducted by the Federal Trade Commission interest on owned capital is excluded from expense. In some investigations interest on short-term loans has been included in expenses and in others such interest has been excluded, the borrowed funds being considered as a part of the investment.

Net profit.—Net profit, or net trading profit, is the difference between gross profit and the total expense of doing business.

Form of profit and loss, or income, statement.—Profit and Loss, or income statements are drawn up in a variety of forms. The following is a very common one:

Gross Sales	$51,000	
Less Returns and Allowances	1,000	
Net Sales		$50,000
Inventory at beginning of period	10,000	
Purchases	35,000	
	$45,000	
Less Inventory at end of period	9,000	
Cost of goods sold		36,000
Gross Profit		$14,000

Expenses:		
Salaries and wages of employees.....		
Salaries and wages of officers and owners		
Rent		
Etc.		
Total Expenses		10,000
Net Profit		$ 4,000
Add other income.....	$1,500	
Deduct any other expense.....	500	
Net Other Income.....		1,000
Net Income		$ 5,000

The different expense items should be grouped in such a way as to show total selling expense, total buying expense, total delivery expense, etc., or to show the total expenses for store operation, for use and maintenance of property, and for management.

The above profit and loss statement shows a gross profit of 28 per cent of sales ($14,000 divided by $50,000); total expenses of 20 per cent of sales ($10,000 divided by $50,000); and a net profit of 8 per cent of sales, ($4,000 divided by $50,000). The net income includes the results of non-merchandising activities and should be compared with the invested capital rather than with the sales. The net profit can properly be compared with the capital used in the merchandising business. If this capital were $20,000 then 20 per cent net profit was earned on the investment.

Source of information.—Until recently very little accurate information was available showing the expenses and profits of retail merchants. Such infor-

mation has, however, been gathered for different classes of retailers during the past few years by various trade associations, publishing concerns, research bureaus, and government commissions and bureaus.[3]

The figures used in this chapter are taken from the bulletins of the Bureau of Business Research of Harvard University, the reports of the Federal Trade Commission, and the financial statements of various companies as published in Industrial sections of Moody's and Poor's manuals.

It should be noted that the stores from which information has been obtained have as a rule been above the average size, although some reports have been received from very small stores. It is usually the larger stores that have books from which satisfactory profit and loss statements can be obtained. This fact should be borne in mind while reading the following pages.

Sales basis for percentages.—Some accountants advocate the use of sales, and others the cost of the goods sold, as the base for computing the percentages of gross profits, operating expenses, and net profits. The use of sales as the basis for computing such percentages has, however, been generally adopted and will be used in this chapter. Some of the reasons why the sales basis has been generally adopted are that the remuneration of salesmen, allowances to customers, and mercantile taxes, are commonly computed on selling price and not cost price. The same

[3] The work of *System* in gathering and publishing such information is deserving of especial mention.

base is almost universally used in computing the percentages of operating expenses. It would be somewhat more logical to compute the percentages of gross profit on the cost of the goods for the reason that the selling price is made up in part of the gross profit. A uniform basis, is however, desirable. Confusion follows the calculation of gross profits on one basis and expenses on another basis. It is far better to use the same base in computing all of these percentages.

GROSS PROFITS

The gross profit realized by an individual merchant depends upon the mark-up policy, the prices actually realized, and the fluctuations in the prices of the goods handled.

The mark-up policy varies with the class of goods handled and with the price policy of individual merchants. The percentage of mark-up is ordinarily higher on shoes than on groceries and higher on millinery than on shoes. The percentage of mark-up is ordinarily higher on fancy than on staple groceries and larger on high-priced than on medium-priced shoes. The reasons for such differences are obvious. The mark-up policy also varies widely between different merchants. The merchant faced with keen competition or who has a low cost of doing business may use a lower percentage in figuring his selling prices than the merchant with less competition or with higher operating expenses. One dealer marks his shoes to sell on a 50 per cent profit

basis, another on a 33⅓ per cent basis, and a third on a 25 per cent basis. A pair of shoes costing $4.00 would be marked $8.00 by the first dealer, $6.00 by the second and $5.33 by the third.

Prices realized.—The average percentage of gross profit realized by a merchant depends upon the prices actually received when the goods are sold. Goods may be marked for a high percentage of gross profit but if reductions must be made to sell a large part of them, the average gross profit will be reduced. The merchant marking the shoes at $8.00 may have average gross profits little or no higher than the merchant marking his shoes at $5.33, for the reason that he is forced to resort to cut price sales to move a considerable part of his stock. The merchant handling the goods having a high style risk ordinarily marks them to realize a high percentage of gross profit. The prices of the goods not sold within a reasonable time are reduced until they are sold. This sacrifice of stock due to a change of styles adds materially to the prices that must be charged for the goods when they are first received. The greater the style risk—the fancier the article or the more extreme the style—the larger must be the percentage of mark up. On the other hand merchants handling staple goods for which there is a steady demand and little danger of a change of style need not price them for such large gross profits.

Price fluctuations.—Fluctuations in prices are an important factor in determining the average gross profits actually realized by dealers. During a period

of rising prices gross profits are increased and during a period of falling prices gross profits are decreased by changes in prices. The value of goods in stock is increased by an increase in prices and decreased by a fall in prices. The large profits made by many dealers during 1917, 1918 and 1919 were due to the general increase in prices during these years. Few subjects were as vigorously debated during the war as the justification of the dealers selling their goods on the basis of current prices, or replacement costs. This subject cannot be discussed in this chapter but it cannot be denied that the practice is common. Dealers have their gross profits increased by selling goods on the basis of replacement costs while prices are rising, and have them decreased by selling on this basis while prices are falling.

Variation in gross profits.—Due to the difference in mark-up policies, in the prices actually realized, and to the amount of goods in stock during a change in prices, there is a wide variation in the percentages of gross profits realized by different dealers handling the same class of merchandise. The variation in the gross profits realized by the various classes of rural merchants who handled farm implements during 1915 and 1917 is shown by the following figures taken from the books of typical dealers.[4]

[4] Federal Trade Commission: "Causes of High Prices of Farm Implements," p. 240. Cash discount on purchases are not included in gross profits.

Percentage of Gross Profit On Sales	*Number of dealers in each group* 1915	1917
Under 10	12	6
10-12	16	20
13-15	28	36
16-18	56	52
19-21	57	60
22-24	38	56
25-27	18	30
28-30	9	28
Over 30	4	9
Total number of dealers	238	297

In 1915; 24 per cent of the dealers had gross profits of less than 16 per cent and 13 per cent of them had gross profits of over 24 per cent. In 1917, 20 per cent of the dealers had gross profits of less than 16 per cent and 23 per cent had profits of over 24 per cent.

The variation in the gross profits realized during 1918 and 1919 by shoe retailers may be shown by the following percentages of gross profit made by typical dealers.[5]

Percentage of Gross Profit on Sales	*Number of Stores* *1918*	*1919*
Under 20	1	1
20-24	10	11
25-29	13	13
30-34	45	37
35-39	20	25
Over 40	6	8
Total number of Stores	95	95

[5] Bureau of Business Research of Harvard University, Bulletin No. 20, p. 15.

Almost one-half of the dealers in 1918, and over one-third of them in 1919 realized gross profits of 30 to 34 per cent inclusive. This indicates that a very large number of dealers realized approximately 33 per cent on sales (50 per cent on cost price). In 1918, one-fourth of these shoe dealers had gross profits of less than 30 per cent and 27 per cent of them had gross profits of 35 per cent or over. In 1919, 26 per cent of these shoe retailers had gross profits below 30 per cent, while 34 per cent had gross profits of 35 per cent or more.

Average gross profits.—In spite of the difference in the gross profits realized by different merchants handling the same class of goods, average figures are useful. Such averages are also necessary in making many comparisons. The average gross profits realized by the various classes of rural dealers handling farm implements during 1915, 1916, 1917, and 1918 were as follows:[6]

Class of Dealers / *Year*	*Percentages* 1915	1916	1917	1918
Implement	17.2	18.0	19.1	18.1
Implement and Hardware	20.4	22.0	21.2	21.4
Implement and Automobile	13.5	13.1	16.3	17.3
Implement, Hardware & Automobile	17.5	18.8	17.8	20.2
Implement and Lumber	19.8	20.3	22.5	21.2
General Merchandise	19.3	19.9	20.2	20.5
Implements and Miscl. Lines	16.9	17.2	17.2	19.4
Average all Classes	18.1	18.8	19.0	19.9

[6] Federal Trade Commission: "Causes of High Prices of Farm Implements," p. 237. Cash discounts on purchases not included.

The average gross profits realized by retail dealers in shoes, groceries and hardware, together with the lowest and highest gross profits reported in each class, are as follows:[7]

Class of Dealers	No. Stores	Year	Percentages of Gross Profits Average or Common	Low	High
Hardware	218	1917 & 1918	26.5	12.8	40.2
Hardware	155	1919	27.1	10.3	41.1
Grocery.....	253	1914 & 1915	21.0	14.6	27.9
Grocery.....	197	1918	16.9	10.5	26.0
Jewelry	100	1919	40.1	20.1	56.6
Shoe	197	1919	33.1	19.3	45.6
Drug.....	187	1919	34.0	20.6	50.1

Additional information is available as to the gross profit realized by shoe retailers. The Federal Trade Commission has published detailed figures gathered from a large number of retailers showing the average costs, selling prices and gross profits on different kinds of shoes during the years 1914, 1917 and 1918. From these figures it appears that the average gross profit amounted to 32.4 per cent in 1914 and 33.8 per cent in 1918.[8]

The common gross profits of different types of retail shoe stores are as follows:[9]

[7] Harvard Bureau of Business Research, Bulletins Nos. 5, 12, 13, 20 and 21. The average used is the mode.

[8] Federal Trade Commission: "Report on Leather and Shoe Industries," pp. 124-153. The averages given are medians expressed as percentages of sales.

[9] Harvard Bureau of Business Research; Bulletin No. 10.

Type of Stores	*Percentage*
Low Priced Shoe	25.7
Medium Priced Shoe	26.6
High Priced Shoe	34.8
Shoe Department of Department Stores	28.1
Chain Stores	28.4

The gross profits of two of the large 5 and 10 cent chains have in recent years varied between 30 and 33 per cent. The gross profits of three of the large chain grocery stores are between 16 and 17 per cent.[10]

OPERATING EXPENSES

Causes of variation in expenses.—There is a great difference in the expenses of retail stores handling different classes of goods. There is also a great difference in the expenses of different stores handling the same class of goods due to differences in operating efficiency and volume of sales; location of store; and services rendered to customers.

Operating efficiency and volume of sales.—The merchant who operates his store efficiently—uses labor advantageously, space economically, selects his stock wisely and turns it often, and possesses selling ability—will have much lower operating expenses than the merchant who is careless, lazy, or otherwise inefficient. The percentage of expense is affected by the volume of sales. The sales of two stores having similar expenses may differ widely. For example, "two exclusive farm implement stores located in the

[10] Figures from the Industrial section of Moody's Manual.

same town in South Dakota during 1915 had approximately equal expenses, and yet one store had sales considerably more than double that of its competitor. When the total expenses were expressed as percentages of sales the store with the smaller sales had expenses over 20 per cent, while the store with the larger sales had expenses of less than 9 per cent." [11] Both of these stores paid approximately the same rent and presumably had locations of about the same size and desirability, yet one dealer, due apparently to superior salesmanship, was able to do more than twice the volume of business done by the other without incurring larger total expenses. In regard to salesforce expense the Harvard Bureau of Business Research says: "It appeared that salesforce expense generally was about one-half as great in proportion to net sales in the retail hardware stores that had a high volume of sales of merchandise per salesperson as compared with the retail hardware stores with a small volume of annual sales of merchandise per sales person. There is also a tendency for the hardware stores with larger total sales to have lower total expenses. The common total expenses of stores with annual sales of less then $30,000 was 23.9 per cent, while the common total expenses of stores with annual sales of over $60,000 was 18.9 per cent. This is, however, only a tendency, as some of the stores with small sales have low expenses and vice versa. It

[11] Federal Trade Commission: "Causes of High Prices of Farm Implements," pp. 261 and 262.

is further pointed out that there is a direct connection between rate of stock turnover and total expenses. Retail hardware stores having a stock turnover of less than 1.8 times per year commonly had total expenses of 25 per cent, while those stores with a stock turnover greater than 2.2 times per year had common expenses of 19.3 per cent of sales.[12]

It must not be inferred from these facts, however, that the large store always has lower expenses in relation to sales than the small store. Just the opposite is often true. The small store may secure just as high a volume of sales per salesperson, just as much selling ability, just as rapid stock turnover, and a closer attention to details than the larger store. "The figures.....show that among the (shoe) stores operating at low total expense many are doing a small volume of business. If the small retailer adjusts his salesforce so as to secure an adequate volume of sales per salesperson, and has average advantages in other respects, he can hold his own in competing with larger stores."[13]

In regard to retail grocery stores this Bureau reports: "The lowest expense ratios were not found in the largest stores, nor the highest in the smallest stores. The greatest variations were commonly between stores of approximately the same size operating under similar conditions in a single locality."[14] The retailer's percentage of expense depends upon

[12] Harvard Bureau of Business Research," Bulletin No. 21.
[13] Harvard Bureau of Business Resarch," Bulletin No. 10, p. 35.
[14] Bulletin No. 5.

the relation of sales to the number and wages of employees, expenses for rent, etc., and the rate of stock-turn and not upon the size of the store.

Location of stores.—Stores located in the rural sections generally have a lower percentage of expenses than the city stores. Stores located in the residential section of a city often have lower expenses than similar stores located in the high-rent, down-town section of the same city, although the volume of sales and stock turnover of the down-town store may frequently give it the lower expenses as measured in percentages. The lower expenses of the rural stores are due principally to lower wages, lower rents, and lower taxes. The average percentage of expenses of farm implement dealers in the Northern Prairie States (Minn., N. D., and S. D.) in 1915 was 11.3, as compared with average expenses of 17.8 per cent for similar dealers in the East North Central States, and 19.9 for those located in the Rocky Mountain and Pacific Coast States.[15] The expenses of the small city stores are commonly said to be from 2 to 4 per cent less and those in large cities from 1 to 3 per cent higher than those in the rural districts. This is, however, only a tendency, for as pointed out above great variations in expenses occur between dealers in the same locality.

Services rendered.— The operating expenses vary with the services rendered to the customers. The

[15] See Federal Trade Commission: "Causes of High Prices of Farm Implements," pp. 262-264.

store furnishing delivery and credit services has, other things being equal, higher expenses than the store operating on the cash-carry plan. The more service rendered, other things being equal, the greater will be the expense. The stores handling fancy groceries generally have higher expenses than other grocery stores because of the services performed in catering to their customers. The stores handling high-priced shoes ordinarily have higher expenses than the stores handling cheap shoes, due at least in part to the services that must be rendered in connection with the sale of high-priced shoes.

Wide variation in expenses.—A chain of stores with average operating expenses of 15 per cent has one store with expenses of only 6 per cent and another with expenses of 28 per cent. The Harvard Bureau of Business Research reports a chain shoe store with expenses of 9.9 per cent and another with expenses of 57.6 per cent. This Bureau found grocery stores with expenses ranging from 10.4 to 25.4 per cent; hardware stores with expenses varying from 11.4 to 36.3 per cent; drug stores with expenses as low as 17.9 and as high as 42.9 per cent; and individually owned shoe stores with expenses ranging from 13.6 to 25.6 per cent. These were the extremes and were presumably reported by stores operating under unusual conditions. A new store without an established trade and with heavy advertising expenses may have a very high percentage of expense. On the other hand an efficiently managed store with a very

desirable location may report a very low percentage of expense. Even if these extreme cases be ignored, there is very little uniformity in the operating expenses of merchants handling the same class of goods and operating under similar conditions. Many persons have assumed that there was little difference in the expenses of merchants handling the same class of merchandise (or of the costs of manufacturers producing the similar products), once the exceptional cases were eliminated. Nothing could be farther from the truth. The cost of doing business varies widely between different merchants and the cost of production varies widely between different manufacturers. The Federal Trade Commission has published figures showing the operating expenses of a large number of rural merchants who handle farm implements. The number of such merchants with different percentages of expense in 1915 and 1917 is shown on the next page.[16]

Any person thinking that there is a marked uniformity in the expenses of similar dealers, once the extreme cases are eliminated, should study this table

[16] Report on the "Causes of the High Prices of Farm Implements," p. 262. It is estimated that these figures cover one-fourth of the dealers handling farm implements who had books from which satisfactory profit and loss statements could be taken. All of these merchants handled farm implements but most of them also handled other classes of goods. The fact that all of these merchants did not handle identical classes of goods would account for but a slight part of the variation. Interest is not included as an expense and salaries are not inserted for the owners of concerns who did not pay themselves salaries.

Percentages of Total Expenses	*Number of Dealers*	
	1915	1917
Under 5	8	9
5- 7	15	24
8-10	39	61
11-13	43	73
14-16	50	66
17-19	46	42
20-22	14	12
23-25	8	5
Over 25	15	5
Total Number of Dealers	238	297

carefully. The average expense in 1915 was 14.6 per cent. Yet only 21 per cent of the dealers had expenses falling with the modal group—14 to 16 per cent, and only 58 per cent of the dealers had expenses within 4 per cent of the average, that is from 11 to 19 per cent, inclusive. In other words, 42 per cent of the dealers had expenses of less than 11 or more than 19 per cent. The variation was almost as marked in 1917.

Average expenses.—In spite of the wide variation in expenses, averages are necessary for comparative purposes. The average operating expenses of the various classes of rural merchants who handled farm implements in 1915, 1916, 1917 and 1918 are shown on the following page.[17]

The decrease in these percentages is due to the

[17] Federal Trade Commission: "Causes of the High Prices of Farm Implements," p. 260. Salaries are included for the owners of all stores. Interest is not included.

Class of Dealers	Average Percentages of Expenses			
	1915	1916	1917	1918
Implement	14.8	15.6	13.8	11.5
Implement and Hardware	16.7	15.9	14.6	13.5
Implement and Automobile	9.5	8.2	10.6	9.7
Implement, Hardware & Automobile	14.8	14.6	13.1	15.2
Implement and Lumber	13.2	13.5	13.0	11.2
General Merchandise	15.0	14.9	12.8	13.2
Implement and Miscl. Lines	13.8	12.7	11.7	12.5
Average All Dealers	14.6	14.0	13.0	12.6

fact that the expenses did not increase as rapidly as the price of the merchandise handled.

Average expenses of general stores.—The average operating expenses of general stores in 1918, as reported by the Federal Trade Commission was, 13.2 per cent. The Harvard Bureau of Business Research reports the average (modal) expenses for 115 stores of this class as 15.5 per cent in 1918. This figure, however, includes 2.2 per cent expense for interest. If this interest be excluded the average would be 13.3 per cent as compared with 13.2 per cent reported by the Federal Trade Commission.

Drug and jewelry stores.—The average expense of 187 drug stores was 27.6 per cent, including interest of 3.1 per cent in 1919. The average expenses of retail jewelry stores, including 4.6 per cent interest, was 32.3 per cent in 1919.

Average expenses of grocery stores.—The average (modal) expenses of conducting retail grocery stores was 16.5 per cent in 1914 and 1915 excluding interest; and 14.0 per cent in 1918, including interest. These averages are based on reports from 253

stores in 1914 and 1915 and 197 stores in 1918.[18] It was pointed out in the preceding chapter that some of the large chain grocery stores had expenses of from 12 to 14 per cent. It must, however, be remembered that this includes the expenses of the wholesale warehouses as well as the retail stores and, apparently in some instances, also the expenses of operating bakeries, etc.

Average expenses of shoe stores.—Considerable information has been gathered showing the operating expenses of retail shoe stores. This information is summarized on the following page:

There is a considerable difference in these average percentages, due primarily to the grade of shoes handled. The stores handling low, medium, or popular priced shoes, prior to 1918, had average expenses of 20.3 to 22.7 per cent. The stores handling a general line of shoes had average expenses of slightly over 26 per cent. Those handling high-priced and military shoes had average expenses of 28 to 30 per cent. The average expenses of the shoe departments of department stores and of the chain stores were generally between these percentages indicating that different grades of shoes were handled. It is noteworthy that the average expenses of the chain stores were no lower than the average expenses of other types of stores. The percentage of expenses appears to have been lower in 1918 and 1919 than in the preceding years due to the great increase in

[18] Harvard Bureau of Business Research, Bulletins Nos. 5-13.

Type of Store	*Number of Stores*	*Period*	*Average Percentages of Expenses Excluding Interest*
Low Priced*		1911-1917	20.5
Medium Priced*		1911-1917	20.3
Popular Priced†	4	1914	22.7
Popular Priced†	9	1915	22.3
Popular Priced†	9	1918	19.8
High Priced*		1911-1917	28.8
General Line†	53	1914	26.3
General Line†	61	1917	26.2
Military†	4	1915	30.0
Military†	4	1917	27.9
Shoe Dept. of Dept. Stores*		1911-1917	23.5
Shoe Dept. of Dept. Stores†	9	1914	30.0
Shoe Dept. of Dept. Stores†	9	1917	25.6
Chain Stores*	17§	1909-1914	24.6
Syndicate†	4	1914	23.7
Syndicate†	5	1917	26.6
Not Stated‡	197	1919	21.1

* Harvard Bureau of Business Research, Bulletin No. 10. The average used is the mode.

† Federal Trade Commission: "Report on Leather and Shoe Industries," p. 152.

‡ Harvard Bureau of Business Research: Bulletin No. 20. The average used is the mode.

§ 184 stores.

the prices of shoes. The average of 21.1 per cent reported by the Harvard Bureau for 1919 is apparently made up from the expenses of stores handling different grades of shoes. With interest included, the average expense for 1919 was 24.0 per cent.

Average expenses of hardware stores.—The average (modal) expenses of hardware stores as reported by the Harvard Bureau of Business Research

was 20.6 per cent for 1917 and 1918, and 21.0 per cent for 1919. The average for 1917 and 1918 was based on reports from 218 stores located in 39 States and Canada. The average for 1919 was based on reports from 155 stores. These averages are considerably higher than those reported by the Federal Trade Commission for mixed farm implement and hardware stores. It must be remembered, however, that interest on both owned and borrowed capital and rent on all store buildings whether rented or owned are included in the expense as reported by the Harvard Bureau. To get the figures on a comparable basis it may be estimated that one-third of the dealers own their store buildings and hence one-third of the average rent expense and all of the interest may be deducted from the Harvard figure. This reduces the average expense to 16.8 per cent for 1917 and 1918 and to 17.1 per cent in 1919. This compares with average percentages for mixed farm implement and hardware dealers, as reported by the Federal Trade Commission, of 14.6 per cent in 1917 and 13.5 in 1918. If one-half of the business of these mixed dealers was in hardware, the expenses of handling the hardware business was about 15.5 per cent for each year, or about one per cent less than the expenses reported by the Harvard Bureau.[19] This difference

[19] This percentage can be estimated, due to the fact that the expenses of the exclusive implement stores are given separately and is based on the assumption that the expense of handling implements is the same in exclusive implement and in mixed implement and hardware stores.

is due to the fact that nearly all of the mixed implement and hardware stores are located in the rural districts, while many of the stores covered by the Harvard study were located in cities.

Expenses of novelty stores.—Figures published in Moody's and Poor's manuals show the average expenses of the Kresge and McCrory chains of 5 and 10 cent stores to have varied from 24 to 29 per cent during the past few years. The relative high expense of these stores is apparently due to the small average sale. The average sale made by the stores of the F. W. Woolworth Co. is reported to be 13 cents.

NET PROFITS

The net profit, or the net trading profit, is the difference between the gross profit and the total operating expense. As there is a wide variation in both the gross profits and expenses of different dealers it is evident that there must be a wide variation in the net profits of similar dealers. The dealers with high expenses, or with exceptionally low gross profits may, and in fact often do, have a loss in place of a profit.

The net profits or losses as reported for retail grocery, hardware and shoe dealers are shown on the next page.[20]

These net profits of four of the large chain grocery stores during 1919 varied from 2 to 5 per cent of sales. The net profits of four of the well-known

[20] As given by the Harvard Bureau of Business Research.

chains of 5 and 10 cent stores during 1914 and 1915 varied from 6 to 10 per cent, and during 1918 and 1919 from 3.5 to 9 per cent.

Type of Store	*Number of Stores*	*Year*	*Percentages of Sales*		
			Largest Net Profit	*Greatest Loss*	*Average (Modal) Net Profit*
Grocery	253	1915	11.0	3.3	2.5—5.5
Grocery	197	1918	9.3	6.1	2.3
Hardware	218	1917-1918	11.1	10.2	6.0
Hardware	155	1919	17.4	4.9	5.8
Jewelry	100	1919	22.6		7.6
Shoes	197	1919	24.7	2.5	9.0
Drug	187	1919	19.4	6.3	6.3

Variation in net profits of shoe stores.—The variation in the net profits of retail shoe stores is illustrated by the following figures as reported by the Harvard Bureau Business Research.

Percentages of net profits (or loss)	*Number of shares* 1915	1919
Net loss	5	3
Net profit 0- 3	8	10
" " 3- 5	23	15
" " 6- 8	17	19
" " 9-11	21	20
" " 12-14	13	15
" " 15 and over	8	13
	95	95

Net trading profits of rural dealers.—The relative number of rural dealers who realized different percentages of net profit, or loss, on sales, during 1915

and 1917 is shown in the table given below. All of these dealers handled farm implements, but most of them also handled other classes of merchandise.[21]

Percentages of net trading profit, or loss, on sales	*Number of Dealers* 1915	1917
Loss:		
Over 3	14	4
3 - 1	15	2
Profit:		
1 - 3	56	50
4 - 6	60	80
7 - 9	34	69
10-12	29	47
13-15	10	23
Over 15	3	17
Total No. of Dealers trading	221	292
Average per cent net profits of all dealers	3.5	6.0

Thirteen per cent of these dealers had trading losses in 1915 compared with only 2 per cent in 1917. In 1915, over 25 per cent of these merchants had net trading profits of from 1 to 3 per cent, 27 per cent had profits of from 4 to 6 per cent, and 35 per cent had profits of 7 per cent or over. In 1917, 17 per cent had trading profits of from 1 to 3 per cent, nearly 28 per cent had trading profits of from 4 to 6 per cent, and 53 per cent had trading profits of over 6 per cent.

[21] Federal Trade Commission: "Causes of High Prices of Farm Implements," p. 267.

NET INCOME

The net income is more significant in the case of these rural dealers than the net trading profits for the reason that cash discounts on purchases were not considered in arriving at the net trading profits. The cash discount on the purchase of farm implements is large. The rate is now commonly 5 per cent, but until a few years ago much higher rates were common. The cash discounts on the purchase of farm implements were as important to most dealers as the net trading profits. The net trading profits of the exclusive implement dealers averaged 2.5 per cent of sales in 1915, while the "other income" averaged 3.8 per cent. The "other income" was made up almost exclusively of cash discounts on purchases and interest received on notes given by the farmers in payment for implements. The "other income" was not as important in the sale of other classes of merchandise, as in the sale of farm implements, but nevertheless was an important source of revenue to practically all dealers covered by the table on page 368. The average percentages of net trading profit and net income were as follows:

	Percentages of Sales[22]	
	Net Trading Profit	*Net Income*
1915	3.5	6.2
1916	4.8	7.4
1917	6.0	8.5
1918	7.3	9.7

[22] Federal Trade Commission: "Cause of the High Prices of Farm Implements," pp. 266-270. The average percentages of net income

Net income earned on total investment.—The dealer is primarily interested in the percentage of net income that he makes on the capital invested in the business or in the amount of money that he realizes for his personal services. The public and the student of economics may also be interested in the return which the dealers make on their investment, and for their personal services, in order to form an opinion as to whether they have been underpaid or overpaid for the services which they perform.

The number of rural dealers realizing different percentages of net income on the total investment is shown on page 371. Borrowed funds are included as investment but the interest paid for the use of such funds is excluded from operating expense in arriving at the net income.

In 1915, 3.3 per cent of the dealers reported having lost money; 21 per cent of them had net incomes of less than 6 per cent on the total investment; 33 per cent had net incomes of from 6 to 11 per cent; and

---

realized on sales by the various classes of rural dealers were as follows:

Class of Dealer	*Percentages of Sales*			
	1915	1916	1917	1918
Implement	6.2	6.3	9.1	9.8
Implement and Hardware	6.2	8.9	9.0	10.6
Implement and Automobile	5.5	6.3	7.7	10.6
Implement, Hardware & Automobile	4.9	6.1	6.4	6.8
Implement and Lumber	9.5	10.5	12.3	12.0
General Merchandise	7.7	8.4	10.3	9.6
Implement and Miscl. Lines	5.3	6.3	7.5	8.7
Average all Classes	6.2	7.4	8.5	9.7

Percentage of Net Income, or loss, on total investment	*Total Number of Dealers*[23] 1915	1917
Losses	7	2
Profits:		
Less than 2	17	5
3- 5	28	8
6- 8	32	19
9-11	37	52
12-14	25	44
15-17	17	40
18-20	18	26
21-23	10	23
24-26	6	16
Over 26	12	38
Total Number of Dealers	209	273
Average per cent Net Income	9.0	14.7

42 per cent of them earned 12 per cent or more on the invested capital. In other words, about 1 dealer out of 33 suffered a loss in this year. Also one dealer out of every five failed to earn a fair rate of interest (6 per cent) on the investment. One dealer out of every 3 earned from 6 to 11 per cent on the investment and two dealers out of every five earned over 12 per cent on the money invested in the business.

In 1917, less than 1 per cent of the dealers reported losses and but 5 per cent of them earned less than 6 per cent on the investment. Twenty-six per cent of the dealers earned from 6 to 11 per cent and 68 per cent earned 12 per cent or over. In 1918, 80 per cent of the dealers, or over 4 out of 5, had

[23] Federal Trade Commission: "Causes of the High Prices of Farm Implements," p. 272.

net incomes equal to 12 per cent or more on the invested capital. Both 1917 and 1918, however, were years of exceptional prosperity. The larger net incomes in these years were due to the fact that operating expenses did not increase as rapidly as prices and gross profits, and also to the fact that many dealers realized large profits on merchandise carried over from previous years and sold at prevailing prices, or at least at prices that yielded much more than the normal rate of profit. The reader may consider that the figures mean that many of the dealers were guilty of "war profiteering" in these years, but they cannot take these years as normal. The Trade Commission took 1915 as a normal year. The rural dealers were not affected by war prosperity in this year and their 1915 net incomes were taken to serve as a basis for comparison of net incomes earned during the war. The net incomes earned in 1915 may, therefore, be taken as fairly typical of the net incomes earned by the rural dealers in "normal" times.

Chain stores.—The net profits, or net incomes, of four of the large grocery chains during 1918 and 1919 varied from 10 to 40 per cent of the investment. During the same years the net incomes of some of the well known 5 and 10 cent chains varied from 6 to 28 per cent, 11 per cent appearing to be the most common figure.

Net income earned on own investment.—Many people think of net income in relation to the investment actually owned by the merchants. From the standpoint of the individual merchant it is more im-

portant to know what he earned on his own investment than what he earned on all the funds used in the business. Except in cases of necessity, a merchant will not borrow money unless he believes that he can use it in such a way that he will have a margin left for himself after the payment of interest. We would thus expect the average percentage of net income on the dealer's own investment to be higher than the average percentage on the total investment. In computing the percentages of net income on the owned investment the interest paid on the borrowed funds was included as an expense and the borrowed funds excluded from investment. The average percentages of net income realized by the rural dealers on total investment and on owned investment were as follows:[24]

Year	*Percentages of Net Income on Total Investment. Interest excluded from Expense*	*Percentages of Net Income on Owned Investment. Interest included as an Expense*
1915	9.0	9.5
1916	11.2	12.0
1917	14.7	16.5
1918	17.7	20.5

Return for the personal services of the dealers.—The Federal Trade Commissions has also reported the average net return per the personal services of the rural dealers. The return for the personal services of the dealers was arrived at by including wages of

[24] Federal Trade Commission: "Causes of the High Prices of Farm Implements," pp. 270-275. The average percentages of net

employees, interest on borrowed funds and estimated interest on the owned investment as expenses and excluding salaries of the owners or officers of the various stores from expenses. There is a difference of opinion as to what rate of interest should be allowed on the owned investment due to the difficulty of estimating the hazard or risk to which the capital is subjected. For this reason the average net return for each class of dealer was shown, after allowing 7 per cent interest on the owned investment and

---

income on the total investment and on the owned investment for the various classes of dealers were as follows:

Class of Dealers	*Averages Percentages of Net Income of Total Investment*			
	1915	1916	1917	1918
Implement	9.2	8.4	14.5	18.0
Implement and Hardware	7.6	11.7	13.2	17.8
Implement and Automobile	13.3	16.3	18.9	28.1
Implement, Hardware & Automobile	8.3	10.5	13.9	13.4
Implement and Lumber	10.1	11.5	14.7	16.1
General Merchandise	10.5	10.2	13.8	16.1
Implement and Miscl. Lines	9.2	12.2	16.7	18.6
Average of all Classes	9.0	11.2	14.7	17.7
	Percentages on Owned Investment			
Implement	9.7	9.2	18.1	23.3
Implement and Hardware	7.7	12.3	14.0	19.6
Implement and Automobile	17.9	20.5	25.7	34.2
Implement, Hardware & Automobile	10.7	13.0	16.9	14.8
Implement and Lumber	11.1	11.8	15.9	16.9
Implement & General Merchandise	11.1	10.5	15.1	18.1
Implement and Miscl. Lines	9.4	12.6	18.5	22.2
Average All Classes	9.5	12.0	16.5	20.5

also after 10 per cent interest on the owned investment.[25]

Year	*Average Return per store after allowing 7% interest on investment*	*Average Return per store after allowing 10% interest on investment*
1915	$3,307	$2,244
1916	4,320	3,206
1917	6,767	5,561
1918	9,305	7,974

The figures shown are the average returns for the personal services of the owners of each concern, but are not the average return per man for the reason that some concerns have more than one owner, or officer, active in the business. The average return per man would be somewhat below the above figures. If we estimate that there was an average of one and one-half men (partner or officer) active in each store, then in 1915 the average return per man was slightly over $2,000 after paying 7 per cent on the owned investment and about $1,500 after earning 10 per cent on owned investment. In the rural sections where the stores were located these would certainly have been considered good salaries in this year for the type of men operating these stores. The returns were notably higher in the later years, but 1915 is taken as the normal year.

[25] Federal Trade Commission: "Causes of the High Prices of Farm Implements," p. 277. Similar averages are shown for dealers handling different classes of goods in each of the four years. The figures presented here are the averages for all dealers covered by the investigation.

THE FAILURE RATE AMONG RETAIL MERCHANTS

Several prominent merchants have said that of every 100 people who enter the mercantile business only 2 to 4 succeed and that the others either vegetate or fail.

System's studies.—A study of the business failures in Waterloo, Iowa, covering a period of 30 years, made by the publishers of *System* showed that 45 per cent of the retail dealers went out of business within five years after entering business. A similar study in Grand Rapids, Michigan, showed that a retail merchant has less than five chances out of ten of staying in business ten years, and less than three chances out of ten of staying in business fifteen years. The studies in these two cities showed that the failure rate was almost as high among manufacturers and wholesalers as among retailers. A study was made in another city for a period of 30 years. It covered 1,327 factories, 492 wholesalers, and 2,550 retailers. It showed that 62 per cent of the factories, 51 per cent of the wholesalers and 58.6 per cent of the retailers failed within 30 years.[26]

Nystrom's Oshkosh study.—Nystrom made a study of the changes among retail dealers in Oshkosh, Wis., from 1890 to 1912. He included deal-

[26] See: "What Can We Do About the Business Death Rate," *System*, January, 1916; "Will You Have A Business in 1924?" *System*, January, 1917; and "When Will My Business Die?" *System*, October, 1917.

ers handling groceries, shoes, dry goods, men's clothing, hardware, furniture and drugs. There were 145 such merchants in Oshkosh in 1890, and 172 in 1912. Of the 145 dealers in business in 1890, only 18 were in business in 1912. Of the 201 who entered business between 1890 and 1900, only 39 were in business in 1912. In all 526 people had embarked in the retail business during these 22 years, out of which number 354 had dropped out prior to 1912. The causes of discontinuing business were determined for 201 of these 354 people. These causes were listed as follows: Death, 24; ill health, 1; bankruptcies handled by the courts, 6; sold out probably at loss, 27; sold out at gain, 14; retired with competences, 5; failures or fizzles, 124. Of the 153 others who dropped out it is concluded that most of them just quietly slipped out of sight. If they had caused serious losses to others, or if they had been very successful, they would have been remembered. It is pointed out that Oshkosh is a typical middle-western city. Similar studies were made in other middle-western towns and similar results were obtained. Nystrom, therefore, believed that the conditions found in Oshkosh were typical of conditions throughout the middle West.

From these facts Nystrom concludes that people are constantly entering the retail business with small amounts of capital saved from other occupations, which is consumed or lost in a few years. For this reason, he believes that the retail business is partly parasitic as more capital seems to flow into retailing

from other sources than flows out of it into other industries. "Most failures in the retail business are simply closed out in a quiet, informal way, and the public never learns just what the financial situation was. A new man with new capital seems to be ready to slip in and try his fortune as soon as the old dealer steps out."[27] In many cases the creditors lose nothing, the dealers quit when they have lost all or part of their capital. Very few of such cases reach the bankruptcy courts. Dun's reports from 1911 to 1920 show failures varying from 0.38 per cent of the firms listed for the year 1919, to 1.32 per cent of the firms listed in 1915. In nearly all years the number is less than 1 per cent. Yet they count as failures only those cases where the creditors lose something. In some years, however, the names taken off their lists have amounted to 20 per cent of the total number of names listed.

Conflict of statements.—On the one hand we have figures covering rural merchants, showing that in 1915, a supposedly normal year, only one out of every 33 dealers lost money, and that only one out of every five of the remaining dealers earned less than 6 per cent on the capital invested in the business. The percentages are after the inclusion of salaries for all the dealers in expenses. On the other hand, we are told that most people entering the retail business soon lose all or a part of their capital and drop out of business. If only one out of every 33 dealers

[27] Nystrom, Paul H.: "The Economics of Retailing," Ch. 18.

is losing money it certainly does not appear that most dealers lose all or a part of their capital in a few years. Can these statements be harmonized? They can to a very large extent.

Limitation on figures.—The figures given above showing percentages of net income earned by different dealers on the invested capital during 1915, were taken from the books of over 200 rural dealers located in all parts of the United States. It is estimated that this is one-fourth of the total number of dealers who handled farm implements in that year who had books from which satisfactory profit and loss statements could be taken. These figures would then apparently be typical of the conditions existing among the rural dealers. It must, however, be remembered that it is usually the larger and more efficient dealers who realize the necessity of keeping books and who have sufficient education to enable them to keep satisfactory records. These figures then do not include a fair proportion of the small, ignorant, or inefficient dealers and should be taken as representing conditions among a class of rural dealers who are slightly above the average in efficiency.

In the second place Nystrom's figures include retail grocery stores, which seem to have a higher failure rate than most other classes of retailers. Competition among grocery stores is generally very keen. The grocery business is easy to enter. It requires little capital to start a grocery store. It seems that a large part of those who desire to enter

the merchandising field without experience or education to fit them for such an undertaking, choose the grocery business. The author's observations lead him to believe that the failure rate is much higher among grocery stores than among most other types of retail stores. David Pender, who operates a chain of grocery stores in Norfolk, Va., says: "I cannot recall one competitor who was in business in Norfolk when I first started 20 years ago, who is still in business to-day."[28] The author recently visited a town in one of the older agricultural states which has had a slow and steady growth. This town has had 20 or more grocery stores for at least 20 years. He was told that there was only one retail grocer there who had been in business for over eight years and this man was known to live very economically. Yet many of the retailers handling hardware, clothing, furniture, dry goods, shoes and drugs had been in the same business for 10 or 20 years, and in some instances even longer.

Conditions among other classes of merchants.— Conditions among hardware stores, dry goods stores, men's clothing stores, jewelry stores, shoe stores and drug stores seem to be somewhat better. More capital is required to start a business and few people will embark in such enterprises without some knowledge of the merchandise to be handled and the conditions in "the trade." It is true that the firm names change frequently. It is a well-

[28] Writing in *System*, March, 1921.

known fact that the American people are constantly changing from place to place and from one business to another. People no longer follow the same occupations all of their lives and train their children for the same occupations. Young men desire to enter business, farmers move to town, traveling men marry and desire to "get off the road," so they can live with their families, merchants decide to enter the manufacturing business, others desire to retire, and still others want to move to other towns. All of these changes, as well as old age and death may lead to changes in firm names. In some cases the retiring member may sell out at a profit and in other cases at a loss—but most of them have made living wages (or profits) while in business.

The measure of success.—It is well known that most people spend practically all that they earn. Few people become wealthy. Most of us simply make a living whether we be mechanics, professional men, or business men. Most retail stores are not large enough to make their owners really wealthy even if successfully operated. For these reasons it seems hardly fair to say that most retailers soon fail and that retailing is a parasitic industry. It must be remembered that many people enter the retail business with little capital and that most of their capital is accumulated from earnings. It must also be remembered that the failure rate is almost as high among manufacturers and wholesalers as among retailers.

BIBLIOGRAPHY

Federal Trade Commission:
"Causes of the High Prices of Farm Implements," ch. 6.
"Report on Leather and Shoe Industries," ch. 5.
"A System of Accounts for Retail Merchants."

Bulletins of Harvard University, Graduate School of Business Administration, Bureau of Business Research.

Industrial Sections of "Moody's and Poor's Manuals."

Nystrom, Paul H.: "The Economics of Retailing," chs. 5 and 16.

System: Many very interesting articles have been published. See especially series of articles by W. Sammons, "Keeping up With Rising Costs;" "What Can We Do About the Business Death Rate?" by Stanley A. Dennis, Jan. 1916; "Will You Have a Business in 1924?" by Stanley A. Dennis, Jan. 1917; and "When Will My Business Die?" by Stanley A. Dennis, October 1917.

Bureau of Business Research, Northwestern University, "Costs, Merchandising Practices, Advertising and Sales in Retail Distribution of Clothing." On the press at this writing.

CHAPTER XIV—QUESTIONS

1. Why have so few retail merchants kept adequate records in the past?
2. Explain the variation in the percentages of gross profits realized by similar dealers.
3. Why do the operating expenses of similar dealers vary so widely? Of what use are average percentages of expenses?
4. Distinguish net trading profit and net income. Explain the wide variation in the net profits of similar dealers.
5. Is retailing a parasitic industry? Discuss.
6. How do you account for the frequent changes in ownership of retail stores? Do most of the dealers quitting business fail?
7. Is this constant changing of ownership of retail stores due to too keen competition or to inefficiency? Is it beneficial to the public? Why or why not?
8. What are the principal causes of failures among retailers? How can the number of retail failures be reduced?

Chapter XV

PURCHASING, STOREKEEPING, AND STOCK TURNOVER

Success in business depends upon the efficient use of land, labor and capital. This chapter deals with the use of capital employed to carry stocks of goods and tries to show how it can be used more efficiently. Business consists largely in the purchase of goods or services for resale in the same or changed forms. In purchasing, the object is to buy the goods in such a way as to reduce the "out of stock" reports to the minimum and to keep the amount of stock on hand as small as practicable. The manufacturer purchases, or produces raw materials, changes the form of these materials and sells the completed products. The less capital he has tied up in raw materials, work in process, and finished products without shutting down his plant or losing business due to inability to make prompt deliveries, the less is his expense for warehouse space, and the less capital is needed to operate the business. The merchant buys goods for resale in the same form. His business is to sell goods and not to speculate. He can make profits only by the sale of goods. Some merchants, especially wholesalers, carry on a certain amount of speculative business by buying goods in excess of immediate needs in the expectation of higher prices. It is impossible for merchants to entirely avoid some

speculative profits or losses, as the market prices of goods often change while the goods are in stock. It should be the object of most merchants, however, to reduce the speculative element to a minimum.[1]

Object of purchasing.—The object of purchasing is to tie up just as little capital as possible in stocks and yet never be out of the goods desired by the customers. In other words to always have all of the necessary articles in stock and yet never to be overstocked in any of them. This is perhaps an ideal that is impossible of attainment in actual practice and yet an ideal that should always be kept in mind and striven for.

Out of stock orders.—When goods are out of stock either business is lost or extra expense is involved in filling orders. The wholesaler can handle orders for goods out of stock in several ways. He can go out and buy from other wholesalers. This is a very common method but generally little or no profit is made on such transactions. He can substitute other goods for those ordered. This is a practice to be followed only when the merchant is sure that the goods substituted will be entirely satisfactory to the buyer. He can have the goods shipped direct to the buyer from the manufacturer by mail or express. He can notify the buyer that the goods are out of stock and that they will be shipped as soon

[1] We say "most" merchants for the reason that it is necessary for some merchants to carry a part of the seasonably produced farm products for considerable periods in order to equalize consumption throughout the year.

as received. This should be done only in case the merchant believes that the buyer could not obtain the goods any quicker from another source. None of these methods should be used if the buyer will be injured thereby. They all involve a loss of profit or extra expense and show the importance of always having goods in stock.

Stockkeeping. — Most merchants and manufacturers buy many goods more or less regularly and try to have the goods arrive as needed. In order to know when to order goods the buyer should know the quantity of each article in stock and the rate at which the stock is being moved. This involves an adequate stockkeeping system. The highly specialized or the small dealer may be in close enough touch with his stock to have this information constantly in mind without the necessity of any formal stockkeeping system. For most dealers and manufacturers, however, some stockkeeping system is highly desirable. Such a system should serve as an intelligent guide in buying and also enable the value of the goods on hand to be ascertained at any time quickly and cheaply.

The perpetual inventory.—The perpetual inventory is one of the methods that has been devised to meet these requirements. Under this system the buyer can tell at any time the quantity of each article in stock. Every time goods are received or sold the proper entry is made and the quantity on hand carried forward. For example the record of a certain size of steel trap may show the quantity on hand

as 24 dozen. An order is received for 4 dozen and the balance in stock, 20 dozen, is entered in the column showing the balance on hand. The buyer can at any time tell by a glance at this column the quantity on hand. The time required to receive a shipment of goods from the factory or wholesaler can be approximated for each article. The number likely to be sold during this length of time should constitute the minimum quantity that it is safe to carry in stock before placing an order for more goods. This minimum number should be entered on the stock record and as soon as the balance on hand is reduced to this figure an order should be placed at once for more goods. The size of the order will depend upon the time necessary to obtain the goods, the rapidity of the sales and the quantity discounts obtainable. When the proper size for the purchase is determined it can also be entered on the stock record. The placing of orders then becomes largely a clerical matter. As soon as the minimum quantity is reached an order is at once placed for the quantity shown as the amount to be purchased. The stock clerks can furnish this information daily to the buyer who places the necessary orders. This method of buying is applicable only to staple articles in regular demand. It will be shown later that the demand for many articles is very irregular.

Advantages of nearby source of supply.—Other conditions being equal the buyer should buy as close home as possible for the reason that goods can be obtained quicker and hence can be bought in smaller

quantities. This ties up less capital in stocks of goods on hand. This may be of such importance that it is good policy to buy from the seller located in the same city even if the goods could be obtained at slightly lower prices from a more distant source.

Item _____ Stock No. ____

Minimum. ___ Quantity to Order. ___ Vendor. _____

RECEIPTS. (Add to Balance)			ISSUES. (Deduct from Balance)			BALANCE.		
Date	Quantity	Amount.	Date	Quantity	Amount	Date	Quantity	Amount.

Chart 7

SPECIMEN FORM FOR PERPETUAL INVENTORY

Perpetual inventory not always practical.—The advantages of the perpetual inventory were outlined above. In spite of its advantages the necessary clerical labor is often so large as to render its use impractical. This is true with many retail stores. The perpetual inventory may be practical for retail stores dealing in articles sold in fairly large units, such as

suits, dresses, hats, shoes, furniture, etc. A carbon copy of each sales slip goes to the proper clerk who deducts the quantity sold and carries the quantity on hand forward. With such goods the clerical expense may not be prohibitive. In handling such large articles it may, however, be cheaper to count the goods on hand frequently than to keep the perpetual inventory. The disadvantages of this method, however, is that if the count is neglected or made carelessly the merchant may run out of certain styles or sizes before he knows it. A perpetual inventory may also be practical for the dealers carrying open and duplicate (or reserve and show) stocks. For example the cigar store can make an entry every time new boxes of cigars are opened and placed in the show cases. A method which saves the expense of keeping the perpetual inventory and yet informs the buyer when to place orders for more goods is to separate and label the minimum quantity of goods that it is safe to have in stock without placing additional orders. For example if this quantity is one case, this case is placed on the bottom and marked with a red label so that the merchant knows when he opens this case that it is time to place an order for additional goods. If one-half case is the minimum quantity, one half of the goods are taken out of a case which is again tied or nailed up and labeled. Such a method may be adequate for many merchants, and also for certain small manufacturers.

Purchasing vs. ordering.—A distinction is sometimes made between purchasing and ordering and

some large concerns have separated the two duties and placed them in the hands of different men.[2] It is the duty of the purchasing agent or buyer to anticipate the demand for goods with a variable demand while it is the duty of the orderer to place orders for those goods having a fairly constant or regular sale. The orderer places orders for such goods as the stock records indicate are needed or as they are requisitioned by the production department. His object is to buy in as small quantities as practical to properly meet the needs of his concern. The buyer, on the other hand, often feels that his usefulness rests on his ability to secure low prices. The danger is that he will over-emphasize price. He may buy from the concern with the lowest price overlooking the better service rendered by another concern. A low price may also lead him to overbuy and thus tie up capital for unreasonable lengths of time.

Unbalanced inventories.—Such overbuying leads to unbalanced inventories. The object should be to carry all items in stock in approximately the proportions in which they are sold or needed by the factory. A departure from this policy may be profitable when the price is exceptionally low and the concern has ample capital or when an increase in price is anticipated. As a rule, however, goods should be purchased in the proper proportions. For example a concern manufacturing an article requiring $4.00

[2] Douglas, A. W.: "Merchandising," p. 7.

worth of steel, $3.00 worth of wood, $1.00 worth of brass, and $1.00 worth of rubber, should buy the four raw materials in approximately this ratio. If $900,000 is tied up in stocks of raw materials the inventory should ordinarily show approximately $400,000 worth of steel, $300,000 worth of lumber, $100,000 worth of brass, and $100,000 worth of rubber. If instead the inventory shows $300,000 worth of rubber, $200,000 worth of brass, $200,000 worth of lumber and only $200,000 worth of steel, it is evident that $1,000,000 must be spent for steel and lumber before all of the brass is used up, and $1,800,000 must be spent for steel, lumber and brass before all of the rubber is consumed. This is certainly an unwise use of capital and one that may lead to failure or may embarass the concern if it becomes necessary to borrow large sums from the banks.

Qualifications for successful buying.—From what has been said it is evident that wise buying is no easy matter. The qualifications for a successful buyer may be summarized as follows: a thorough knowledge of the sources of supply; familiarity with prevailing prices and the probable future trend of prices; and bargaining ability. The buyer should also be a good judge of quality. Before the buyer can intelligently utilize these qualifications he must know the quantities in which the various articles should be purchased. Manufacturers often manufacture goods 6 to 12 months before they are bought by the ultimate consumers. Wholesalers frequently

place orders for goods from 3 to 9 months before they are delivered. Many retailers also buy many goods considerably in advance of delivery. In order that goods may be manufactured or purchased in the proper quantities it is necessary that the future demands be forecasted with some degree of accuracy. In the case of staple goods with a steady demand the sales records will serve as a basis for future orders. In case sales are on the increase, or decrease, this fact should also be considered in placing orders. Sales must of course be considered in the number of units and not in dollars. The demand for many articles fluctuates and such fluctuations must be considered in buying such articles. The problem of the buyer, or the executive in charge of the store or factory, is to anticipate such fluctuations and forecast future demands.

Changes in demand.—The rapid changes in the style of many articles of clothing, especially women's clothing, are well known and give the dealers in such articles especially serious problems in buying. Retailers located close to the source of supply often buy small lots of style goods for the early season trade and as soon as the demand is felt out, re-orders are placed for the bulk of the season's goods. The risk involved in the handling of style goods adds to the expense of both wholesalers and retailers and consequently to the prices to the consumers. The success or failure of many dealers in the clothing and dry goods trades depends upon their success or failure in forecasting consumer demand, as or-

ders must often be placed with the mills and garment makers months before the goods are delivered. Many failures are attributed to poor buying.

The demand also changes due to changing customs, our changed methods of living, our improved ideas of sanitation and cleanliness, and our improved standard of living. The demand for baby cradles has almost ceased as the American baby is no longer rocked to sleep. The use of the automobile has caused a marked decline in the demand for porch swings but has created a demand for all kinds of automobile accessories. Our improved ideas of sanitation and cleanliness has created a demand for window and door screens, and white-lined refrigerators. The installation of electric lighting plants by the farmers has increased the demand for small dynamos, gasoline engines, wire, electric lighting fixtures as well as electric irons, vacuum cleaners and other appliances operated by electricity. With the increased standard of living comes a larger demand for paint, for paint is a sign of progress; for more and better clothing; and for better house furnishings. Even the people in the small towns are buying period furniture—Queen Anne, etc. The old folding-bed is gone and the present tendency is away from metal beds.

Few articles in steady demand.—There are relatively few articles for which the demand is steady over a long period of years. Even with foodstuffs the demand changes. Note the introduction of breakfast cereals, powdered milk, new canned foods,

and the substitute of packaged goods for bulk goods. Oatmeal may be the same whether sold in packages or bulk but it makes a difference to the merchant in purchasing as to the quantities of each that should be bought. The wooden tubs and pails have gone out of use in the kitchen because of their weight and the iron kettle and skillet are following for the same reason. Such changes, however, are slow. The demand for the old product grows less each year while the demand for the new product shows a corresponding increase. The buyer should buy the passing product in smaller quantities each year until it is eventually "closed out." Care should be taken not to have a quantity of such products in stock after the demand has stopped for they can be disposed of only at a loss. The demand for corn knives decreases with the increased use of corn binders but fluctuates from year to year. Yet the demand for many old articles is remarkably persistent. Sears, Roebuck & Co. reports that a considerable demand still exists for congress gaiters and that in 1919 they sold 500,000 percussion caps for muzzle-loading rifles. Old flat-irons are still used and in the South there is still some demand for No. 7 stoves and stove furniture, although this size is rapidly going out of use. The demand from the South is largely from the negroes who still want a small, cheap stove. Douglas points out that some people continue to want "old-fashioned" things. Such wants persevere "in certain districts, notably portions of the South, the Philadelphia district, some sections of the

Appalachian mountains, and some rural districts of New England, long after they have died out in other parts of the country."[3]

Local demands.—The demands of consumers are influenced by their economic position, race, sex, age, climate, occupation, and sectional customs. The merchant must consider all of these factors in selecting stock suited to the wants of his customers. It was pointed out in a previous chapter that the ability of the local merchant to do this was one of his advantages over the large mail order house or department store. It is well known that there are many stores in our large cities that cater to the trade of certain nationalities, e.g. the Italian trade, the Jewish trade, etc. The stock carried by a general store in South Carolina differs in many respects from that carried by a general store in North Dakota. The difference in climate causes different types of clothing to be sold in the two States. The type of farm equipment also differs widely in the two States. The cotton of South Carolina is largely a hand crop, calling for small tools while the spring wheat of North Dakota is largely a machine crop, demanding heavy machines. The clothing handled by a store catering to the laboring class differs from clothing sold by another store in the same town catering to the professional class. An increase in the prosperity of a store's patrons changes the type of goods demanded, a fact that some merchants have been slow to realize. The demand varies from one sec-

[3] Douglas, Archer W.: "Merchandising," p. 55.

tion to another with the tastes of the people. For example, a store in Wisconsin whose customers are of German and New England extraction will have a much larger demand for bakery cakes than a similar store in Tennessee whose customers eat hot bread and fewer cakes, and bake most of these themselves. Other local conditions must also be considered. For example, the people in the alkali plains of the west do not buy aluminum cooking utensils; and the people of California do not buy rugs with floral designs, presumably because they have all the flowers they want outdoors.[4]

Seasonable demands.—The demand for many articles varies with the season. An open winter decreases the number of overcoats, ice skates, and sleds sold. A hot summer increases the sales of palm beach suits, electric fans, refrigerators, and ice cream freezers. A hot summer decreases the sale of lawn mowers for the reason that a hot summer is also a dry summer when the grass needs little cutting. A wet summer causes the grass to grow and increases the demand for lawn mowers. The demand for some such items, e.g., lawn mowers, varies as much as 50 per cent from one year to another.[5] The demand for agricultural machines varies with the crops, which depends to a very large extent on the season and on prevailing prices. A good wheat crop increases the sale of binders, a dry year decreases the sale of mowing machines but increases

[4]Rosenwald, Julius, writing in *American Magazine* of July, 1920.
[5] Douglas, Archer W.: Merchandising," p. 59.

the sale of corn knives as more corn is cut to make up for the shortage in hay; a low price of cotton decreases the acreage planted and hence the number of cotton hoes sold. To illustrate the number of grain binders, harvesters, and headers manufactured, varied as follows in census years: 1899, 233,542; 1904, 108,810; 1909, 129,274; and 1914, 215,-386.[6] It must also be noted that if the sale of seasonable goods is light during the first half of the season, later favorable weather will seldom make up for the dull business and the season will be poor. For example if the winter is mild until January and few overcoats have been sold, a cold February will not make up for the poor business for the reason that most men will make their old coats finish the winter. Similarly most people who go into the first half of August without purchasing an electric fan will get along the rest of the summer without one unless exceptionally hot weather follows. This means that the sale of many seasonable goods depends primarily upon the weather during the early part of the season.

Such goods must be made by the manufacturers and bought by the middlemen in anticipation of the demands. Is there anyway by which such seasonable demands can be predicted with any degree of

[6] "United States Census Reports," as compiled by the Federal Trade Commission. See report on "Causes of High Prices of Farm Implements," p. 44. Similar variations are shown for many implements. The variation in the number of implements manufactured depends in part on the demand from farmers bringing new land under cultivation and the demand from foreign countries.

accuracy? The United States Weather Bureau does not attempt to forecast the weather more than a week in advance. It has, however, been noted that the weather tends to run in cycles. A study of weather over a long period of years is therefore valuable.

Can the weather be foretold several months in advance?—The Committee on Statistics and Standards of the Chamber of Commerce of the United States of America has been working on this question and the following quotations are taken from its reports:

"The extremes of rainfall show a tendency to recur within the thirty-five year period. There are more years above or near the average (rainfall) than below it. The wet years have a tendency to flock together, as have the dry ones, but there are rarely more than two dry years associated together.

The probabilities therefore, are that three average wet years are likely to be succeeded by two drier ones, and the drier ones in turn by three or more wetter ones. It will also be found that the months of April, May and June . . . correspond in the proportion of their rainfall to that of the average of the entire year. . . . There is also the same method of forecasting as to the probabilities of the coming months as have been set forth in the case of the years. . . . (In case of an unusually dry spring) there is first the general caution and conservation to be observed in such a probable contingency as to sales, commitments, credits and the like, and

then specific instances as affecting the purchase and sale of certain lines, for instance there would be a curtailment of purchases in goods that sell best in wet weather. The conclusion would be also that the corn crop would be hurt by the drought and this would result in a probable diminution in the sale of corn huskers, etc. Like all statistics those of rainfall do not tell the whole story and are not, therefore, absolutely safe guides.

Cold and warm seasons.—"The so-called average, or what are known as 'mean' temperatures are worse than worthless for all business purposes, as they are thoroughly misleading. Years in which there are the most violent differences in extremes of temperature show mean temperatures within a few degrees of each other. . . . For the purposes of this report, therefore, there have been chosen the extreme temperatures of both heat and cold. . . . . In order to have some basis of reckoning, those winters where the temperature falls below zero (at St. Louis) are regarded as 'cold', while summers recording temperatures above 100 degrees are classed as 'hot.' The study . . . seems to establish very definitely the relation . . . of maximum temperatures in summer with deficient rainfall. . . . . There does not seem to be any connection between temperature and precipitation in winter. A very cold winter may be either a wet or a dry one. There does not seem to be any relation between a hot summer being followed by a cold winter, but in the main, cold winters seem to be suc-

ceeded by cool summers. The flocking together of hot summers appears to be confined to two of them at most. These are likely to be succeeded by a flock of from three to four summers of more moderate temperature. In other words it is fairly safe to reckon on a very hot summer being succeeded in the main by one of more moderate temperatures. . . . . We have then sufficient data to form a basis of a working theory in regard to the relations of business and temperature. It is not and cannot be of absolute exactness but it has been . . . found dependable about 80 per cent of the time. It must be remembered, however, in the sale of seasonable goods . . . that other factors than the weather enter largely into consideration,"—such for example as fashion and the stocks in the hands of the retailers.[7]

Application of principles to purchasing. — The buyer, or purchasing agent, should consider all of the factors affecting demand. He should consider the gradual changes due to whatever cause, and the seasonal fluctuations in demand due to the prosperity of the people, styles, or to the weather. The trend of the sales is helpful in ascertaining a gradual change in demand. More retailers could profitably

[7] Special Bulletins: "Relation of Weather and Business in Regard to Rainfall," February 14, 1919; and "Relation of Weather and Business in Regard to Temperature," November 7, 1919. Studies were based on the weather at St. Louis, but the cycles are believed to be similar over a large part of the United States, although the amount of rainfall and the degree of heat and cold are different in different sections.

use such figures. There are plenty of statistics and forecasts available to aid the buyer in forecasting general business conditions. In manufacturing or buying goods with a seasonable demand the quantity in the hands of the middlemen must be considered. The retailer considers what he has in stock in placing orders, the wholesaler must consider the stocks in the hands of the retailers, and the manufacturer must consider the stocks in the hands of both wholesalers and retailers. For example, one summer may be cool so that the retailers carry over large stocks of ice cream freezers. The study of the weather cycle and also of business prosperity may indicate that the sale of freezers will be much heavier the next summer. Yet the number of freezers in the hands of retailers may be so large that the wholesalers should buy very conservatively. The quantity of goods in the hands of dealers may be reported by the salesmen of the firm desiring the information.

Anticipating demands. — Very often the buyer must act without any statistical information and with little specific information of any kind before him. It is thus important for him to understand the psychology of the buyers and be able to note changes almost before they take place. For example a buyer for a wholesale hardware concern early one spring observed that two out of three women on the street were wearing furs and that many of those in automobiles wore fur coats. He placed larger orders for steel traps than ever before and the next winter could supply the retailers with traps after his com-

petitors' stocks were exhausted. This buyer knew that a heavy demand for furs meant high prices and that high prices for furs would stimulate trapping and hence the demand for traps. A very large part of the small furbearing animals (muskrats, coons, skunks, etc.) are caught by the boys in our farming States. Trapping is a side issue with most of these boys and the extent to which they trap depends very largely upon the prices paid for furs. The buyer of traps should also consider the weather during the previous winter for if there had been heavy floods and snows he would know that many traps had been carried away or lost.[8] This ability to sense changes in their early stages is an important asset to buyers and may be the basis for so-called "hunches." These "hunches" if based on actual observations and a comprehension of the psychology of the buyers, and not on a mere guess, may often serve as useful helps in buying. A method of assistance in anticipation demands, which is applicable to retail stores, is to require the sales people to fill out slips when goods asked for are not in stock. A tabulation of this information will indicate the development of new demands.

STOCK TURNOVER

Meaning of stock turnover.—Goods are received, placed in stock, sold and delivered from stock. When all of the goods received have been sold and

[8] Douglas: "Merchandising," pp. 72-74.

delivered the stock is said to have been turned over. If a newsboy buys 20 papers and goes out on the street and sells them he has turned over his stock one time. A dealer however seldom sells all of his stock before buying additional goods. Most dealers receive shipments of goods frequently while sales are being made constantly. Stock turnover must then be measured by the length of time required to move the average quantity of goods in stock. It is generally spoken of as the number of times that goods are bought and sold within a given period, as six stock turns per year. In calculating the rate of stock turnover the cost of sales (purchases with inventory adjustments) is divided by the average inventory (average value of goods in stock). Thus if the cost of sales during the year is $12,000 and the average value of goods in stock $2,000 the stock has been turned six times. Many retail dealers do not keep perpetual inventories and take physical inventories only once a year, usually on January first. If the stock on hand at this time fairly represents the average quantity on hand during the year, the average of the inventory at the first and last of the year may be satisfactorily used in computing the rate of stock turnover. If the stock on hand when the inventory is taken is unusually small, due to the seasonal nature of the business or to the fact that stocks have purposely been reduced to facilitate the taking of the inventory, the average value of the two inventories cannot properly be used in computing the rate of stock turnover. If the stock is

commonly low on January first, inventories may be taken at other times. Some concerns take monthly inventories, which is a desirable practice if the expense is not too great.

The manufacturer's turnover.—Since the manufacturer changes the form of the materials which he buys before he resells them and since he increases their value by this addition of labor, the rate of capital turnover may be more significant than the rate of stock turnover. A manufacturer can measure his capital turnover by dividing the cost of goods sold by either his working capital or his total investment. The first method gives the number of times per year that the working capital is turned while the second method shows the rapidity with which the total investment is turned. The rate of working capital turnover is perhaps of greater importance as the efficiency of working capital can be increased more easily than can that of the fixed investment. The efficiency with which fixed investment is used should, however, not be overlooked. Some manufacturing concerns undoubtedly invest too much capital in buildings and machinery, which are needed only during periods of exceptional prosperity. The criticism has been made that many manufacturers invested too large a part of their war profits in extending their plant facilities. All manufacturers can profitably devote their attention to the efficient use of the working capital used to carry stocks of raw and finished goods and of extending credit to

buyers. Proper purchasing and store keeping methods will tend toward an economical use of capital.

The variation in the rate of turnover of different types of manufacturers may be illustrated by flour millers and farm implement manufacturers. The flour mills turn their entire capital on the average from 3.6 to 5.7 times per year while the farm implement manufacturers average turning their entire capital only 0.6 times per year.[9]

Importance of rate of stock turnover to dealers.—One of the chief objects of careful purchasing and stockkeeping is to increase the rate of stock turnover, for the rate at which the stock is turned is one of the principal factors determining the operating expenses and hence the net profits. Stores with a high rate of stock turnover generally have lower expenses than similar stores with a low rate of stock turnover. The wholesale grocery stores with over six stock turns per year generally had expenses 1.9 per cent lower than the wholesale grocery stores that turned their stock less than 4.5 times per year. Similarly retail grocery stores with a high rate of stock turnover had expenses 3 per cent below similar stores with a low rate of stock turnover. Retail shoe stores that turned their stock 2.5 or more times per year had a saving in their expense for interest equal to 2.5 per

[9] See Federal Trade Commission reports: "Causes of High Prices of Farm Implements," 1920, pp. 118 and 310; "Commercial Wheat Flour Milling," 1920, pp. 72 and 76. These ratios are obtained by dividing the sales by the total investments. If the profits had been eliminated, which it seems to the author should have been done, the ratios would have been somewhat reduced.

cent of sales as compared with similar stores which turned their stock less than 1.3 times per year.[10]

A merchant by increasing the rate of stock turnover may increase his sales without a corresponding increase in expenses. Also by using better purchasing and stockkeeping methods he can carry a much smaller stock of goods and do the same volume of business. In the latter case a part of the capital tied up in the stock will be released. This increased capital may be used to carry additional lines of goods or invested elsewhere. If most of the stock is purchased on credit such a reduction will decrease the debts of the concern and enable more cash discounts to be taken; or in case the money is borrowed from the banks will lessen the amount of interest paid.

Some of the expenses of merchants are fixed while other expenses vary with the sales. This statement is, of course, only relatively true, for sales can generally be increased somewhat without adding another salesman, while if sales are increased sufficiently a larger building must be obtained and a larger organization maintained, which will increase practically all expenses.

Retail hardware dealers as an example.—The effect of an increased rate of stock turnover on net profits may be illustrated by the expenses of retail hardware stores. The figures used are those reported by the Bureau of Business Research of Harvard

[10] Figures reported by the Harvard Bureau of Business Research, See "Bulletin" Nos. 13, p. 15; 14, p. 21; and 20, p. 18.

University, for the years 1917 and 1918.[11] The common selling expenses were 6.5 per cent, the common delivery expenses 0.9 per cent, the common buying expenses, 1.0 per cent, and the common losses from bad debts 0.5 per cent. It may be assumed that all of these expenses, which total 8.9 per cent, vary with sales. The management expenses averaged 3 per cent, and the fixed and upkeep expenses (including interest), 7.5 per cent, or a total of 10.5 per cent. It may be reasonably assumed that by increasing the rate of stock turnover most stores could increase their sales considerably without increasing these expenses. The remaining expenses are reported as miscellaneous expense, which average 0.8 per cent. We may assume that half of the miscellaneous expenses vary with sales and that the other half are fixed. The total variable expenses are then 9.3 per cent and the total fixed expenses 10.9 per cent.[12] Consider the case of a hardware dealer with average expenses, who in a given year had sales of $24,000, cost of sales, $18,000, and who turned his stock twice during the year. The variable expenses of this dealer were $2,232, the fixed expenses $2,616, and his total expenses, $4,848. His gross profit was $6,000 ($24,000 less $18,000), and his net profit $1,152 ($6,000 less $4,848).

[11] See "Bulletin No. 12."

[12] The common total expenses were reported by the Harvard Bureau as 20.6 per cent, while the total of the figures reported as common for the various items of expense did not add up to exactly this figure.

Now consider that this dealer during the next year by the application of more efficient merchandising methods, increased his sales to $36,000 without increasing the average amount of stock on hand. The cost of the goods sold would be $27,000, his gross profit $9,000 while he would have turned his stock three times. The total variable expenses would be $3,348. As the size of his stock was not increased he would not need any more space or any more fixtures, so that his expenses for rent, light, repairs, depreciation, taxes on property, and insurance would be the same as the previous year. As the stock has not been increased the payments of interest would not be any larger and might, in fact, be smaller as the goods were sold more promptly and presumably could be paid for sooner. The management expenses would likely be increased very little. The total fixed expenses would then be approximately the same as the previous year, or $2,616. His total expenses would be $5,964, and his net profit $3,036 ($9,000 gross profit less $5,964 total expense). This dealer has increased his net profits from $1,152 to $3,036 by turning his stock one more time during the year. In actual practice it may be hard to increase sales so rapidly without decreasing the percentage of gross profit.[13]

[13] This increase in business could not, of course, go on indefinitely without increasing the fixed charges. If the business continued to grow a larger building would have to be secured which would increase the expenses for rent, heat, repairs, depreciation, taxes, etc. Management expenses would also soon have to be increased. During the time that such changes were being made the fixed expenses

If this dealer was unable to increase his volume of sales due to the location of his store or to competition, he could still profit by an increased rate of stock turnover. In the first year his average stock on hand was worth $9,000 at cost. Suppose that in the second year he did the same volume of business but reduced his average stock to $6,000, which would mean that he turned his stock three times. Such a reduction in the size of his stock would decrease the amount of interest paid. It would also mean that less space would be needed. This might enable him to rent a smaller building or sublet a part of his present location. He could thus decrease his expenses for rent, heat, light, insurance, repairs, depreciation, taxes, etc. Less labor would be required to care for the smaller stock and to wait on customers in the smaller quarters. In this case his total expenses would be decreased and his net profits correspondingly increased.

Stock turnover cannot make a profit out of a loss. —The importance of stock turnover has at times been over-emphasized. Stock turnover alone cannot turn a loss into a profit. This calls to mind the old story of the merchant who was told that he was losing a dollar on each item sold. "Oh, that's all right," he replied, "I make it up because I sell so many of them." Stock turnover cannot be considered independently of expenses. Considering stock turn-

---

might increase even more rapidly than the sales. Until such changes have to be made the dealer, however, can profit by increased sales resulting from quicker turnovers."

over and gross profits alone may be misleading. For example, a merchant may have a turnover of one article of twelve times a year and an average gross profit of 10 per cent. The gross profit on the investment in the article is 120 per cent per year. He may be able to turn his stock of another article only three times a year and have a gross profit of 25 per cent. His gross profit on the investment in the second article is 75 per cent per year. He may conclude that the first article is the more profitable. This may or may not be the case. The expense of handling each article must be considered before the net profits on the two articles can be ascertained. If the expense of handling the first article is 9 per cent, his net profit on each turn would be 1 per cent and the total net profit, 12 per cent a year. If the expense of handling the second article is 21 per cent, the net profit on each turn would be 4 per cent, and the total net profit 12 per cent or exactly the same as on the first article.

Cutlery and nails as an example.—The gross profits and expenses on different articles handled by the same merchant vary widely. The gross profit can generally be ascertained, but in stores without a departmental organization it is very difficult to accurately determine the expense involved in handling different articles. Compare high grade cutlery and nails handled by a retail hardware store. The cutlery may carry a gross profit of 50 per cent, while the gross profit on the nails may be only 7½ per cent. A large line of cutlery must be carried and sales are irregular.

It may be impossible to turn the stock of cutlery more than twice a year. Nails, on the other hand, can generally be obtained on short notice from a nearby jobber, so that relatively small stocks need be carried. They are in regular demand and it may be possible to turn them 18 times a year. As to the relative expense of handling the two lines, it is evident that the cutlery must be handled carefully, kept wrapped or in a glass show case, and rubbed frequently to prevent rusting, while the nails are kept in the kegs or dumped into bins in inconspicuous parts of the store. The cutlery also may be given space in the show windows and advertised in the newspapers. The nails sell without either of these expenses. Also in selling cutlery, it must be shown to the customers and the salesmen must wait while the customers make their selections. With nails, on the other hand, the salesman need only weigh out the quantities of the different kinds and sizes desired by the customers, who know what they want before they enter the store. It is evident from these facts that the expenses of selling nails is much less than the expenses of selling cutlery. It may, however, be difficult to determine accurately just what this difference amounts to in the ordinary store. Suppose it is determined that the cost of handling nails is 5 per cent, while the cost of handling cutlery is 30 per cent. The gross profit on the cutlery is 100 per cent per year and the expenses 60 per cent, so that the total net profits is 40 per cent on the investment in cutlery. The annual gross profit

on the nails is 135 per cent, and the expenses 90 per cent. The total net profit is equal to 45 per cent of the investment in nails. In this case nails are actually more profitable than cutlery in spite of the low gross profit realized on their sale.

Stock turnovers of different classes of dealers.—It is evident that the stock can be turned much more rapidly in some classes of stores than in others. The newsboy may be able to turn his stock several times a day, while the butcher and the green goods grocer may be able to turn their stocks within a few days. On the other hand, dealers in goods that can be sold at only certain seasons, such as farm implements, can turn their stock only a few times a year. The same is true of dealers who must carry large assortments of goods to supply the needs of their customers. Hardware, jewelry, and shoe dealers come in this class. The average number of stock turns per year realized by different classes of dealers, together with the highest and lowest rate reported by dealers in each class is shown below. The rate of stock turnover obtained by a group of the more efficient stores is also shown for several classes of stores. Merchants whose rate of stock-turn is below this latter figure should try to increase their efficiency until this rate is attained. The figures are those reported by the Harvard Bureau of Business Research and for each case are based on reports from a large number of dealers.

NUMBER OF STOCKTURNS PER YEAR

Type of Store	*Year*	*Low*	*High*	*Common*	*Rate by More Efficient Stores*
Retail Grocery	1915	3.5	23.8	7.0	12.0
Retail Grocery and Meats..	1915	7.0	26.0	9.0	14.0
Retail Grocery	1918	1.8	27.1	7.9	
General Merchandise	1918	0.9	13.1	2.4	
Retail Drug	1919	1.1	7.4	2.3	2.8
Retail Hardware ... 1917 &	1918	0.9	5.8	1.8	2.5
Retail Hardware	1919	1.1	6.8	2.1	2.5
Retail Jewelry	1919	0.3	...	1.1	
Retail Shoe	1919	0.8	4.8	1.8	
Retail Low Priced Shoes....	(1)	0.6	4.8	1.6	
Retail Medium Priced Shoes	(1)	0.7	5.1	1.7	
Retail High Priced Shoes....	(1)	0.9	2.3	1.5	
Shoe Dept. of Dept Stores...	(1)	0.9	3.1	1.5	
Retail Chain Shoe Stores...	(1)	1.1	4.6	1.7	
Wholesale Grocers	1916	2.8	11.6	5.7	
Wholesale Grocers	1918	2.5	19.0	5.2	Over 6
Wholesale Grocers	1919	2.2	14.6	5.2	Over 6

(1) Reports cover period from 1912 to 1917, inclusive.

NUMBER OF TURNOVERS OF WORKING CAPITAL PER YEAR

Class of Dealer[14]	*1915*	*1916*	*1917*	*1918*
Implement	1.97	1.99	2.19	2.84
Implement and Hardware	1.46	1.49	1.77	1.88
Implement and Automobile	3.27	3.55	3.52	3.55
Implement, Hardware and Automobile	2.40	2.19	2.69	2.53
Implement and Lumber	1.46	1.38	1.49	1.62
Implement and General Merchandise	1.51	1.50	1.66	1.88
Implement and Miscellaneous Lines..	2.10	2.26	2.55	2.58
Average All Classes.....	1.83	1.89	2.16	2.25

[14] Federal Trade Commission: "Report on Causes of High Prices of Farm Implements," p. 274.

Turnover of working capital.—When goods are sold on credit the rate of stock turnover fails to reveal just how efficiently capital is used for the reason that the capital may be tied up in "accounts receivable" for several weeks or months after the sales have been made and the goods delivered. For this reason the rate at which the working capital in the business is turned may be a more significant figure.

When the stock of goods on hand is low on January first and inventories are not taken at other times, it is impossible to accurately calculate the rate of stock turnover. Farm implements are sold principally during the spring and fall and the stock in the hands of the retail dealers on January first is below the average on hand during the year. The Federal Trade Commission found it impossible to calculate the average rate of stock turnover for the various classes for rural dealers handling farm implements, as their balance sheets were made up for January first. Instead it calculated the average number of turnovers of working capital per year. As a very large part of the sales of these dealers are made on credit, the turnover of working capital probably is a better index of their efficiency than the rate of stock turnover. The average number of turnovers of working capital per year for a large number of rural dealers handling farm implements is shown above. From a study of these figures it can be seen that the capital invested in automobiles was turned more rapidly than that invested in any other class of merchandise handled by these dealers.

This may be explained by the fact that fewer automobiles need be carried in stock and that relatively few sales are made on long credits. The capital invested in implements shows the next most rapid turn, followed by the capital invested in general merchandise, hardware, and lumber in the order named. The figures are shown on page 412.

BIBLIOGRAPHY

Douglas, Archer W.: "Merchandising," chs. 2-8, inclusive.

Chamber of Commerce of the United States of America, Special Bulletins: "Relation of Weather and Business in Regard to Rainfall," and "Relation of Weather and Business in Regard to Temperature."

Rosenwald, Julius: "What We Have Learned from 6,000,000 Customers," *American Magazine,* July, 1920.

"Bulletins" of the Harvard Bureau of Business Research.

Federal Trade Commission: "Report on the Causes of the High Prices of Farm Implements," pp. 117-119; and 273-74.

On the perpetual inventory and stockkeeping see various books on cost accounting and industrial management. The following are typical: Kester, Roy B.: "Accounting Theory and Practice," vol. II, chs. 3 and 13; Nicholson, J. Lee: "Cost Accounting Theory and Practice," ch. 7; Jones, "The Administration of Industrial Enterprise," ch. 17; Diemer: "Industrial Organization and Management," ch. 5 and 6; Parkhurst: "Applied Method of Scientific Management," ch. 5, etc.

Nystrom, Paul H.: "Retail Store Management," chs. 5, 7, and 8, and "Economics of Retailing," ch. 3.

Swinney, John B.: "Merchandising," pt. II, ch. 7.

Hotchkin, W. R.: "Making More Money in Storekeeping," chs. 10 and 20.

Twyford, H. B.: "Purchasing."

Field, C. C.: "Retail Buying."

A. W. Shaw Co.: "Purchasing Problems."

CHAPTER XV—QUESTIONS

1. What is the object of purchasing? Distinguish purchasing and ordering. What are the qualifications of a successful buyer?
2. What is a perpetual inventory? What is its use? What is its relation to buying? What is meant by a balanced inventory?
3. Why does demand change? What factors must manufacturers of the following articles, consider in estimating the demand for next season: silk? carpets? automobiles? paints? and grain binders?
4. What is stock turnover? How calculated? What is its importance to the merchant? Show how an increase in rate of turnover affects net profits. Distinguish stock and capital turnover.
5. The buyer of women's ready to wear clothing for a department store located in an eastern city has made it a practice to buy about one-half of the expected season's needs before the season opens and the remainder during the season. This lessens the risk of buying styles which are poor sellers and also requires less capital. If an advance in price is expected he buys more than 50 per cent in advance, while if prices are falling, he buys less than 50 per cent. What policy would you recommend for the following season?
6. The Jones Grocery Store sells 5 cases of a certain brand of soap per week. By buying in 100 case lots a discount of 2.3 per cent can be secured. Should 100 cases be bought at once? Why or why not?
7. The Consolidated Manufacturing Co. uses 5 cars of coal per week when the plant is running at normal full time capacity. Coal can often be bought somewhat cheaper in the early summer than during the winter. The company has storage space sufficient for 200 cars. What factors should the purchasing agent consider in determining the amount of coal that he will buy during the early summer.
8. Williams is buyer for a wholesale hardware concern. He must place orders with the manufacturers in the fall for goods which he hopes to sell to the retailers the following spring. What factors should he consider in determining the quantities of ice cream freezers, lawn mowers, electric fans, window screens, and hammocks to be purchased?
9. The Giant Wholesale Grocery Co. has its business divided into eight departments—canned goods, cereals, etc. In charge of

each department is a manager who buys all the goods in his department, and fixes their selling prices. Each manager has practically full authority in making purchases, the only limitation being that exceptionally large purchases which require large sums of money are passed on by the board of directors. Each manager is judged by the profit which his department shows. Physical inventories are taken twice a year. At other times, the buyer must take an actual count to determine the specific quantity of any article in stock. This concern has a stock turnover of only four times a year. What changes in the methods of purchasing and stockkeeping would you suggest?

Chapter XVI

COOPERATIVE MARKETING

Meaning of cooperation.—Cooperation may be defined as joint action by a number of people for the purpose of advantageously manufacturing, buying, or selling goods, or engaging in other activities, for their mutual benefit.

Classes of cooperative enterprises.—There are several classes, or types, of cooperative enterprises, the principal ones being: Productive cooperative enterprises, as the ownership and operation of manufacturing plants by the workers; distributive cooperative enterprises, as the joint ownership and operation of the marketing machinery by the consumers or producers; financial cooperative enterprise, as banks and building and loan associations; and cooperative insurance enterprises. Distributive cooperation alone comes within the scope of this book as the other types of organization are not primarily concerned with marketing. The cooperative factory has to market its product but under the present marketing system such a factory would have substantially the same marketing problems as any other factory and so its problems need not be discussed separately.

There are three types of distributive cooperative enterprises. First, the buying organizations of con-

sumers which generally operate cooperative stores, or buying clubs; second, selling organizations of farmers or other producers; and third, cooperative enterprises among dealers, such as cooperative jobbing houses, cooperative delivery companies, etc.

1. CONSUMERS' COOPERATION

By consumers' cooperation is meant the ownership and operation of the marketing machinery by the consumers.

Object.—The object of most cooperative stores is to reduce the cost of living. The cooperative stores attempt to reduce the cost of living by eliminating the middlemen and securing their profits for the consumers, and making goods pass as directly as possible from producers to consumers. The plea for the establishment of such stores is based primarily on the expensiveness and inefficiency of our present marketing system. It is argued that the evils of the present methods are due to the profit system and that the evils can be removed only by removing the cause. The profit system is said to lead to high prices, poor quality, deception of the buyers, and forcing the sales of goods carrying large profits regardless of whether the buyer has a use for them or not. Cooperative stores attempt to reduce the cost of goods to the consumers, handle better goods, tell the buyers the truth about all goods, and leave them free in making selections.

Some cooperative stores have the further object

of promoting social activities among their members and aiding the development of the cooperative movement. In furthering these latter objects such stores may use all or a part of their profits for establishing club rooms, playgrounds, etc., or in spreading cooperative propaganda.

History of consumers' cooperation.—Experiments in distributive cooperation can be traced back into the eighteenth century but the first movement to attract general attention was that started by Robert Owen in England in 1824. Owen's scheme, however, was broad and essentially communistic. The consumers' cooperative movement was really started in Rockdale, England, by 28 weavers who met in 1844 and started a cooperative store. The original capital was only $140 and the "Toad Lane Store," where business was started, was rented for 25 cents a week. This association—the Rochdale Equitable Pioneers —was successful from the first. Within a year the association numbered 74 members and in ten years had 900 members and a capital of over $30,000. The plan has been adopted by thousands of other organizations in England and other countries and from this humble beginning in Rochdale, the cooperative movement has grown until there are in the neighorhood of 60,000 consumers' cooperative societies in the world, with a total membership which represents close to 20,000,000 families.

Importance of consumers' cooperation.—The importance of the consumers' cooperation may be shown by figures giving the number of societies, number of

members, and the sales of such societies in some of the countries of Europe, where the movement has had its principal growth.

IMPORTANCE OF CONSUMERS' COOPERATIVE SOCIETIES IN CERTAIN EUROPEAN COUNTRIES[1]

Country	*Year*	*Number of Societies*	*Number of Members*	*Sales 000 Omitted*	*Average per Society*	*Average per Member*
Austria	1916	636	490,717	$39,815	$62,602	$81.14
Belgium	1912	205	170,748	9,182	44,789	53.77
Denmark	1915	1,562	243,855	24,297	15,555	99.64
Finland	1916	486	181,752	31,391	64,591	172.71
France	1918	2,233	1,129,684	109,066	48,842	96.55
Germany	1918	2,277	2,900,000	181,649	79,776	62.64
Italy	1915	1,970	411,358	30,270	15,366	73.87
United Kingdom	1918	1,364	3,846,531	755,076	553,575	196.30

Consumers' cooperative societies are important in many other European countries. Russia had 40,000 such societies in 1919. The various forms of cooperative enterprises are estimated to reach 100,000,000 people in Russia. Consumers' cooperative societies are also important in Greece, Holland, Spain, Switzerland and many of the new European countries created as a result of the World War. The War led to a great increase in the membership of cooperative stores due to the attempt to escape from profiteering merchants and hold down the cost of living. The movement has grown until it is estimated that from 33 to 40 per cent of the families in the

[1] Figures from *Monthly Labor Review,* October, 1920.

United Kingdom have one or more members in such societies; that 22 per cent of the families in Germany are members of cooperative societies; that from 10 to 12 per cent of the population of France are cooperators; and that such societies supply about one-half of the people in Denmark.[2]

Cooperative wholesale societies.—Cooperative buying ordinarily starts with retailing. Its aim is to eliminate the profits of all middlemen and make goods pass as directly from producers to consumers as possible. The object is to secure goods for the consumers at the producer's, or the wholesale, price plus the necessary expenses of transportation and retailing. To this end wholesale warehouses, or associations, are established as soon as possible. The idea is to own the marketing machinery as far back toward the producers as possible. Productive enterprises such as bakeries, shoe factories, preserve factories, etc., are often secured when the societies become large and have sufficient capital. The English societies send their buyers to foreign countries and import a considerable part of their own goods. The affiliated retail societies may establish national wholesale societies, which may have branches in convenient locations. Such national wholesale organizations have been established in England, Scotland, Ireland, Germany, Russia, Italy, the United States, and other countries. The German wholesale society in 1918 had 2,140 affiliated retail societies. The combined

[2] *Monthly Labor Review*, October, 1920.

sales of the English, Scottish and Irish wholesale societies amount to over $400,000,000 a year.

Principles of the Rochdale plan.—It has been stated that most of the cooperative stores that have succeeded have adhered more or less closely to the Rochdale Plan, while those that have failed have done so because they have not followed the sound principles laid down by the Rochdale Pioneers. The Rochdale Plan is based on democratic control and cash sales at prevailing market prices. Under the Rochdale Plan the capital is contributed by the members but regardless of the number of shares owned each member has one vote. The one-man one-vote principle is fundamental. The rate of return on the capital is limited to the legal rate. Any surplus is used to establish reserves or is distributed to members in proportion to their purchases. Sales are made only at the prevailing market prices. This policy gives a surplus from which reserves, so essential to the successful operation of any business, can be set aside. It is clearly impossible to tell in advance what dividends can be paid, hence to attempt to sell at the net price is to invite disaster. Sales are made only for cash. Many retail stores have failed due to unwise or an over extension of credits. Starting with a small capital cash sales were necessary to the Rochdale Pioneers, as they also paid cash for the goods purchased. Many cooperative stores do extend a limited amount of credit and this policy does not always lead to failure but it adds to expense

and lessens the saving which is the object of such stores. Sales for cash enable the society to pay cash for its goods, reduce expenses, prevent losses from bad debts, and enable the store to be operated with a smaller investment. The one-man one-vote principle prevents a small group of men securing control of the organization and changing it from a cooperative to a profit making enterprise as has often happened in the United States.

Development in the United States.—Consumers' cooperation in the United States began in Boston in 1844 when a tailor started a buying club for the New England Association of Mechanics and Workingmen. The Workingmen's Protective Union, later known as the New England Protective Union, grew from this club. By 1852, 403 stores had been organized. The American Protective Union was formed as a result of a split. By 1857 this latter organization reported 350 branches with sales of $2,000,000. In all 769 stores were established but all either failed or became private concerns. Among the causes of failure were listed: sales at cost; sales on credit; paying more than the legal rate of interest on stock so that some concerns came to operate for the benefit of the stockholders; poor management; and lack of the spirit of cooperation.

Many other organizations were instrumental in establishing cooperative stores. The Grange, or the Patrons of Husbandry, an organization of farmers, started many stores. The Sovereigns of Industry, the

Patrons of Industry, the Farmers' Alliance, the Labor Exchange and the Right Relationship League, were some of the other organizations active in establishing such stores. Most of these stores failed, but a few succeeded in staying in business, although some of the successful stores became joint stock companies operated for the profit of the stockholders. There were approximately 200 cooperative stores in the United States in 1903 and 400 in 1916. Organizations to spread propaganda and aid in establishing stores succeeded in starting many stores, and in increasing interest in the subject of cooperation. Consumers' cooperation, however, remained relatively unimportant in the United States until the World War sent prices skyward.

Reasons for failure.—Mr. N. O. Nelson, who organized a cooperative association of 20,000 members in New Orleans, estimated that 1,000 cooperative stores were started in the United States from 1910 to 1915, of which only 1 per cent had succeeded.[3] The reasons for the large number of failures are not far to seek. Poor management and lack of support by the members are the most important reasons.

Many stores have failed because neither the members nor the manager really had the cooperative spirit. The American people are constantly on the move. This complicates the problem of the cooperative store. The average income has been much

[3] Nelson, N. O.: Cooperative Stores, *Outlook*, February 16, 1916.

higher in this country than in Europe and the people have paid less attention to small savings. They have been unwilling to undergo the inconvenience of trading at the cooperative store for the small savings possible. The American people have been individualists and independent. They have not learned to cooperate. The stores that have succeeded have generally been located among a group having a rather strong class or group feeling; as among people of the same race or nationality; among college students; among a labor group, that has learned something of cooperation in their labor unions; or among farmers. Many of the stores that failed had poor managers. Oftentimes the members were unwilling to pay enough to secure a competent manager. The success or failure of a retail store depends to a large extent upon the manager and it is hard to secure the best management from hired employees. The members and directors were often absolutely inexperienced in business matters and so were incapable of properly supervising operations. It probably would not be far from the truth to say that the stores that had efficient management succeeded and that the others failed. It has been observed that all conspicuously successful cooperative stores can trace their success to the influence of some conspicuous leader. This leader must be backed up by other members and by the manager and clerks. Practically the location has a good deal to do with the success of a store. Theoretically a cooperative store can take the cheapest

available location as the members are supposed to go out of their way if necessary to patronize their store. In practice they often do not do this, and to succeed the cooperative store should have a convenient location.[4] Some stores have started with too few members, too little capital, or with wrong ideas. The failure of many stores has been attributed to the departure from the Rochdale plan. Sales have been made on credit, sales have been made below the prevailing market prices, and a few stockholders have often been allowed to secure control of the stores. If all the stores had been operated in accordance with the rules laid down by the Rochdale Pioneers the percentage of successes would undoubtedly have been larger.

The recent movement.—The interest in cooperation has been growing for some years and the movement was given a fresh impetus by the rapid increase in the cost of living during the World War. Hundreds of new stores were opened. The conditions were favorable for the growth of the movement. The fact that prices rose more rapidly than wages and salaries forced many people to economize. Also the fact that prices were rising made it a relatively easy matter to conduct a store successfully. The movement has grown rapidly. The National Cooperative Association estimated that there were 3,000 stores in the United States in 1920 doing an annual business

[4] See U. S. Dept. of Agriculture, Bulletin No. 394, 1916, pp. 7 and 27.

of $200,000,000. The movement seems to have grown more rapidly in sections where several stores were already in existence. The stores are more or less centralized on the Pacific Coast, backed especially by the labor unions; in Illinois, especially among the miners; in the Dakotas, supported by the non-Partisan League; in Kansas and Nebraska supported by the Farmers' Educational and Cooperative Union; and in the North Central States, supported by the Cooperative Wholesale Society of America, at St. Paul. There are also a number of stores operated by the Finns, who have a wholesale society at Superior, Wisconsin, and another at Fitchburg, Massachusetts. The Tri-State Cooperative Association stated on October 1, 1919, that there were 50 cooperative stores within 50 miles of Pittsburgh.

"The Pacific Cooperative League now has some fifty branch retail societies, a combined membership of some 15,000 and is doing a business of about $3,500,000 annually."[5] Many of the farmers' cooperative marketing organizations also purchase supplies for their members. In some instances large quantities of goods are purchased. More will be said of these purchasing activities in the next chapter.

Wholesale societies have been organized to supply the retail stores. The National Cooperative Association has its main office and warehouse in Chicago and a branch at Hoboken, N. J. It is

[5] Quotation from a letter of December 15, 1920, to the author.

planned to open other branches in Los Angeles, Kansas City, Omaha, Denver, and other points. District or affiliated wholesale stores are located at San Francisco, St. Paul, Superior, East St. Louis and Pittsburgh.[6] Other wholesale houses have been reported in Omaha; Miles City, Montana; and Boston.

It is too soon to form a final opinion as to the success of this recent cooperative movement, although many of the stores are reported to have failed. It is one thing to operate a store successfully during a period of rising prices and another thing to operate a store successfully when prices are falling. The test of any store is its ability to operate successfully when prices are on the decline. It is significant that some of the organizers have advocated the establishment of such stores not on the basis of the money saving, but on the basis of developing a cooperative spirit, or spreading cooperative propaganda, of loyalty to a cause, and of the social features possible with such an organization. Savings were to be incidental and perhaps were to go for social features or for propaganda and not to the buyers. Many of the stores in the past have failed due to a lack of loyalty on the part of members. If the organizers succeed in "selling" the people on the idea of cooperation, cooperative stores will succeed, and it is doubtful if very many can

[6] Consumers' Cooperative Wholesale Societies in the United States, Florence E. Parker, *Monthly Labor Review,* April, 1920.

succeed until the members are "sold" on this principle.

Organization.—The average paid-up capital of 61 cooperative stores in Minnesota in 1913, as reported by the Minnesota Experiment Station, was $9,880.[7] The average paid up capital of 50 cooperative stores located in 10 western States in 1915 as reported by the Office of Markets and Rural Organization of the United States Department of Agriculture, was $16,627.[8] The average number of members of 59 of the Minnesota stores in 1913, was 104. The average for 43 of the western stores in 1915 was 228, the number for different stores varying from 30 to 1,600. The number of members of 85 stores in 1920, as reported by the United States Department of Labor, varied from 35 to 1,700, the average being 427.[9] This indicates an increase in the membership of cooperative stores from 1915 to 1920 due probably to the growth of stores among urban labor groups. The Minnesota stores were almost all rural stores, the farmers owning 86 per cent of the stock. The western stores covered by the report of the Department of Agriculture included some town stores, as 37 per cent of the sales were made to town trade. Several of the 85 stores reporting to the Department of Labor in 1920 were apparently located in indus-

[7] "Minnesota Experiment Station Bulletin No. 146."

[8] United States Department of Agriculture, "Bulletin No. 394," November 3, 1916.

[9] *Monthly Labor Bulletin,* March, 1920.

trial centers. All of the stores which reported to the Minnesota Experiment Station operated on the one-man one-vote principal. Of 45 western stores reporting to the Department of Agriculture in 1915, 40 voted on the one-man one-vote principle and 4 voted according to the stock owned.

Sales.—Most cooperative stores sell to both members and non-members. The report of the Department of Agriculture, based on reports from 42 stores, showed that 40 per cent of the sales were made to non-members. Fifty Minnesota stores reported that 41 per cent of their sales were made to non-members. Some stores pay dividends on purchases only to members, while others pay to members and non-members alike. Perhaps the most common practice is to pay a lower rate of dividend to non-members than to members. Of 23 stores covered by the Minnesota study, 6 paid the same dividend to members and to non-members; 10 paid their members double the rate paid to non-members, and 7 paid dividends to members only. Most of the cooperative stores in the United States do a certain amount of credit business. The Department of Labor reports that most of the stores extend credit to their members equal to from 20 to 80 per cent of their share capital and to 100 per cent of their loan capital. Of 50 stores reporting to the Office of Markets and Rural Organization in 1915 only two did a strictly cash business and one-half of their total business was done on a credit basis. Fifty Minnesota stores reported that 31 per cent

of their sales were made for credit. Most of the stores sell at the prevailing prices. Only 3 of the 85 stores reporting to the Department of Labor in 1920 sold at less than prevailing prices. The average annual sales of 61 Minnesota stores in 1913 was $42,518. The average annual sales of 45 western stores in 1915, was $87,782, the sales of the individual stores varying from $7,500 to $623,703. The Department of Labor in 1920 reported sales varying from $13,315 to $78,450 per month. The average monthly sales were $13,315, or $159,780 annually. The increase is, of course, due to higher prices, but it is pointed out that a few large stores raise the average and that most cooperative stores do a business below the average.

Opportunities for saving.—The primary object of the cooperative store is the elimination of the middlemen's profit. There are also supposed to be several economies in the operation of such stores. Such stores do not need an expensive location. As the members are trading with their own society, the store can be located on a side street where the rent is low. There is also supposed to be a saving in wages. Fewer clerks are needed as sales are not pushed, and the customers very largely select their own goods. It is also claimed that managers can be secured for lower salaries than are paid by other stores. This may be true in England, where the managers are ardent cooperators, but in this country many stores have failed because the salaries paid were too low to secure good managers. The co-

operative stores can also eliminate advertising expense and materially reduce, or eliminate, delivery expense. If sales are made only for cash a saving is made in interest, in bookkeeping expense, and in losses from bad debts. Some claim that cooperative stores should secure a more rapid stock turnover than other stores due to the fact that they carry only goods demanded by their customers and have steady sales. These savings in operating expenses together with the elimination of profit should mean savings in the retail stores equivalent to from 5 to 10 per cent of sales. When cooperative wholesale houses are established further savings are possible. If cooperation should grow the way some of its advocates hope all the middlemen's profit would be eliminated and the consumers' organizations would produce their own goods or purchase directly from producers' cooperative organizations and thus materially reduce the total marketing expenses.

Operating expenses.—The operating expenses of 35 cooperative stores in 1915, varied from 7 to 17 per cent of sales, the average being 11.7 per cent. The average expense of 61 cooperative stores in Minnesota in 1913, was 10.9 per cent of sales. A comparison with the expenses of non-cooperative stores handling similar goods indicates that the cooperative stores had an average saving in operating expenses equal to 2 to 3 per cent of sales.

The rate of stock turnover of 35 cooperative stores in 1915 varied from 2.1 to 16.1 times per

year, the average being 4.4 times.[10] This does not indicate that the cooperative stores have succeeded in turning their stock any more rapidly than non-cooperative stores.

Actual savings on purchases.—Of 57 cooperative stores reporting to the Minnesota Experiment Station in 1913, 18 paid no dividends, even on stock; 11 paid dividends on stock but not on purchases; and 28 paid dividends on purchases. The dividends paid on purchases by these 28 stores averaged 5.6 per cent to members and 3.5 per cent to non-members. The average net profit of 35 western stores in 1915, was equal to 6 per cent of sales. The highest net profit reported was 10.6 per cent and the greatest loss 1.1 per cent. Out of 60 western stores in 1915, only 11 reported a net profit of 5 per cent or over. This means that the members of 49 stores were entitled to no dividend at all or to a dividend of less than 5 per cent.

The Department of Labor early in 1920 reported savings of from 3 to 10 per cent on purchases. The average saving for grocery stores was slightly over 7 per cent, and for general merchandise stores 6 per cent. A saving of 7 per cent on groceries would amount to $36 per year for a typical family having an income of $1,200 to $1,500. This saving is realized only if all groceries are bought from the coperative stores. It must be remembered that these percentages of saving were the savings reported

[10] United States Department of Agriculture, "Bulletin No. 394," p. 24.

during a period of rising prices and exceptional prosperity for most dealers. Making a saving during such a period is an entirely different matter from making a saving during a period of falling prices or business depression. It is not clear just wha prices are used as a basis of comparison in computing the percentages of saving. A comparison with prices of individually owned stores operating on the service plan would show different results from a comparison with the prices of non-service chain stores.

A cooperative store organizer has stated to the author that he didn't advocate opening stores where it was necessary to meet chain store competition. The corporation stores are by no means always able to undersell the chain grocery stores. These company or corporation stores are not operated for profit; are often able to buy on advantageous terms, and some of them have a part of their overhead expenses borne by the concern for, or by, whose employees it is operated.

Conclusions on consumers' cooperation.—The savings shown above indicate the benefits actually received by members of cooperative stores. Only one-half of the stores covered by the Minnesota study paid dividends on purchases and less than one-fourth of the cooperative stores covered by the Department of Agriculture's 1915 study had net profits of 5 per cent or more. The average savings of 7 per cent realized during 1919 and the early months of 1920, cannot be taken as typical of what can be ex-

pected in normal years, for the profits of most dealers were exceptionally large in this year. The savings so far realized fall far short of what could theoretically be realized under a complete system of cooperative marketing.

Mr. Edward A. Filene, a prominent Boston merchant, says "theoretically cooperative stores either individually, or organized in chains . . . ought to become the stores of the future."[11] It has been pointed out that the large chains operating on the non-service method probably represent the highest efficiency yet attained in retail merchandising. If such chains could be made cooperative so that their profits would be passed on to the consumers, and at the same time retain their buying power and efficiency of operation, perhaps the ideal merchandising system would be attained. As a matter of fact, however, it is exceedingly difficult to attain efficiency without the opportunity for personal profit. Therein lies the problem of cooperation—to make people industrious and efficient without the stimulus of personal gain.

[11] Writing in *System*, March, 1920.

CHAPTER XVI—QUESTIONS

1. What is meant by cooperation? What are the different kinds of cooperative enterprises?
2. What are the principles of the Rochdale plan? Are these principles necessary to the success of a cooperative store?
3. Why have so many cooperative stores failed in the United States? When successful, what advantages do they offer their members?

4. Why have cooperative stores been more successful in Europe than in the United States?
5. A group of local labor unions propose to start a cooperative store. What facts should be ascertained before such a store is opened? What policies should be followed to ensure the successful operation of such a store?
6. The faculty of an urban university of 5,000 students desires to engage in some form of cooperative buying in order to reduce the cost of living? What are the schemes that should be considered? Which scheme offers the greatest opportunity for saving? Which would be most likely to be successful? Could such schemes be extended to the students? If so, how would the students benefit?

Chapter XVII

COOPERATIVE MARKETING (*Continued*)

2. COOPERATIVE MARKETING OF FARM PRODUCTS

Cooperative marketing organizations among farmers have been the most successful of any form of cooperative enterprise in the United States. Such organizations have grown until there are at present 14,000 of them marketing some 10 to 15 per cent of the total farm products sold by our farmers.

Origin.—The Grange (Patrons of Hnsbandry) was one of the earliest organizations instrumental in starting cooperative marketing enterprises among farmers. During the period from 1869 to 1876 the granges started many cooperative marketing organizations—purchasing agencies, stores, grain elevators, creameries, grist mills, factories, and also banks, and insurance companies. It will be remembered that Montgomery Ward & Company was started as a mail order house to supply the local granges. The purchasing agencies and stores generally failed, but they failed partly because they succeeded in bringing prices down. Other stores had to reduce prices to meet the competition. Sewing machines for example, were reduced from $120. and $125. to $70. The grain elevators were in most cases sold to one or two members to be op-

erated as profit-making enterprises. The factories succeeded fairly well in production but failed absolutely in the marketing of their products. The creameries, grist mills, and live stock shipping association succeeded in some cases.

Many other organizations have been instrumental in starting farmers cooperative marketing enterprises, which space forbids mentioning. Those enterprises that have succeeded have generally been organized to meet a real need. Poor or inadequate marketing facilities have sometimes driven the growers to provide their own marketing machinery. Cooperative associations organized by outsiders have generally failed. Companies selling supplies and machinery have often organized cooperative concerns which have generally been unsuccessful. Cooperative enterprises have often failed due to a lack of loyalty on the part of the members, due to inefficient management, and to the volume of business being too small. In spite of the many failures the movement has grown until such organizations market a very considerable part of our farm products. It is significant that cooperative selling organizations have been successful more frequently than cooperative buying organizations.

Present Status.—There are about 14,000 farmers' cooperative organizations in the United States, which according to an estimate of the Secretary of Agriculture marketed $1,500,000,000 worth of products in 1919. Such organizations are found in practically every agricultural section of the United

States but are most numerous in the Northern Central States. Minnesota has the largest number of organizations—2,950 in 1917—Wisconsin comes second and Iowa third. Large numbers also exist in the Dakotas, Illinois, Kansas, Nebraska, Michigan, Ohio, and the Pacific Coast States. The number of organizations in Minnesota increased from 2,007 in 1913 to 2,956 in 1917. The sales of these Minnesota organizations amounted to $56,260,208 in 1913 and $118,710,606 in 1917. Among the cooperative associations in Minnesota there were in 1917, 643 creameries, 360 elevators, 400 live stock shipping associations, 52 cheese factories, 102 stores, 15 potato warehouses, 159 fire insurance companies, and 950 telephone companies. The cooperative creameries and cheese factories now produce and market a considerable part of our butter and cheese. The organizations of the dairy farmers supplying milk to the eastern cities have attracted much attention in recent years in their attempts to secure higher prices for their milk. Associations have been started in the South for the sale of cotton. The cooperative movement has also attained a considerable growth in Western Canada. There are, for example, 316 farmers elevators in Saskatchewan and other associations handling live stock, butter, wool, eggs, potatoes, etc.

Grain elevators.—There are about 5,000 cooperative grain elevators in the United States with over 600,000 members. The elevators are said to market over one-half of the grain of the country. Groups

of these organizations are establishing their own commission houses and terminal elevators and demanding membership in the grain exchanges. The Farmers National Grain Dealers' Association in its convention on Dec. 2 and 3, 1920, recommended the establishment of selling agencies in desirable markets. The attempt is being made at this writing to combine the various cooperative marketing organizations engaged in marketing grain into one large marketing organization with its own terminal elevators and commission houses. This organization is the United States Grain Growers' Inc. and is to be financed by the Farm Finance Corporation with a capital of $100,000,000. There are 565 farmers' elevators in Iowa, 553 in Illinois, 516 in North Dakota, 488 in Kansas, 482 in Nebraska, 420 in Minnesota, 291 in Ohio, 168 in Indiana, 132 in Oklahoma, 123 in Montana, and smaller numbers in other States.[1]

Live stock shipping associations. — There are said to be over 4,000 live stock shipping associations, with over 1,000,000 shippers. A very large number of these associations were organized during 1919-1920.[2]

Rice.—The Pacific Rice Growers' Association controls the greater part of the rice grown in California. The Southern Rice Growers' Association started marketing rice under a cooperative plan in

[1] *American Cooperative Journal,* November, 1920.

[2] Earl J. Trosper, writing in the *American Cooperative Journal* of December, 1920.

November 1920. The latter association claimed to have as members 70 per cent of the growers in Texas, Louisiana, and Arkansas. It expected to handle between 5,000,000 and 7,000,000 barrels of rice during the year.[3] At this writing its plans are reported to have not been altogether successful.

Potatoes.—There are many cooperative associations engaged in marketing potatoes. Several are located in the eastern potato belts. The Michigan Potato Growers' Exchange is a well-known organization. The Nebraska Potatoes Producers' Sales Association has been organized as a federation of the local associations in Nebraska.

California.—In value of products marketed by growers' cooperative associations California is one of the leading states. The California Fruit Growers Exchange handles nearly 75 per cent of the citrus fruits sold by California growers. In the fiscal year of 1920 this concern marketed over 34,000 cars of fruit worth over $81,000,000 to the California growers and about $166,000,000 to the consumers. The California Associated Raisin Co., sold during 1919 over $42,500,000 worth of raisins. The California Peach Growers Inc. handled $10,000,000. worth of peaches in 1919. There are some 30 or 35 other cooperative marketing organizations in the State, among which might be mentioned the California Lima Bean Growers' Associations, the California Prune and Apricot Growers, Inc., the California Walnut Growers' Association, the Pacific Rice Grow-

[3] *Journal of Commerce*, November 11, 1920.

ers' Association, and the California Almond Growers' Exchange.

Fruit growers.—There are many cooperative organizations engaged in marketing fruit. The fruit growers in Washington and Oregon have strong associations. The Northwestern Fruit Exchange, the Yakima Fruit Growers' Association, and the Oregon Cooperative Growers' Association (prunes) are well-known associations. The North American Fruit Exchange has 120 local associations identified with it and during 1920 sold over 35,000 carloads of fruits and vegetables. There are several such associations in the east which market apples or other fruits. The Florida Citrus Exchange in the year ending September 1, 1920, handled 3,770,511 boxes of citrus fruit worth $13,757,000.

Object.—The objects of the farmers' cooperative marketing organizations are to increase the efficiency of the marketing machinery and secure higher prices for the products sold. To do this these organizations often try to build up outlets, eliminate losses, lessen marketing expenses, standardize the products handled, and collect and distribute market information. These organizations attempt to secure a division of labor. They recognize that the farmer knows more about production than about marketing; that he often does not know when, where, or how to sell; and if left to dispose of his own products he may be the victim of a system which he does not understand and is powerless to change. The cooperative organization relieves the farmers of the mar-

keting function and by its larger volume of business, and its ability to employ experts and concentrate on marketing problems, is often able to market the farmers' products to much better advantage than the farmers can while acting individually.

The objects of the farmers' cooperative marketing organizations have in nearly all cases been practical rather than theoretical, idealistic or utopian. They recognize the necessity of retaining the motive of self-interest. Many of these organizations are willing to sell directly to consumers' cooperative organizations, but if the consumers don't organize that is their own fault and no concern of the farmers. In the meantime they work with the established marketing machinery. The California Fruit Growers' Exchange works with 2,500 jobbers and 300,000 retailers in order to increase the consumption of California fruits. In this way they try to have oranges and lemons constantly on sale in the small towns and villages that could be reached in no other way. They want the cooperation of the retailers in displaying and pushing the sale of their products.

Cooperative enterprise the result of necessity.—The growth of many cooperative organizations has been the direct result of the failure or inefficiency of the old marketing system. The marketing system has in many instances failed to keep up with the growth of population and the increase of the area over which goods are transported and sold. Prior to the organization of cooperative marketing enterprises the California orange growers either sold

their crop to local buyers or consigned them to eastern commission merchants. The sale in either way involved considerable risk. Neither the individual grower or shipper had accurate information as to the supply of oranges in the various eastern markets. The result was that oranges were often shipped to a glutted market with resultant loss. There were also the risks from transportation and decay which were larger than now as the methods of handling, packing, and transportation were poorer than at present. The growers also came to believe that the buyers fixed maximum prices and divided territory. The growers who consigned their oranges took all the risks themselves and were subject to exploitation by commission men sometimes 2,000 to 3,000 miles away. If the oranges arrived in good condition on a day when prices were high large profits might be realized. If, on the other hand, many oranges were decayed or the market was glutted when the fruit arrived heavy losses were to be expected. Some growers got from 100 to 200 per cent more than others for the same grade of fruit. Many growers failed to receive enough for their fruit to cover the cost of production. It was such conditions as these and no theories about a more equitable distribution of wealth that caused the growers to organize.[4]

The development of cooperative grain elevators grew out of the fact that the wheat farmers felt that they were not receiving a fair share of the wholesale price of wheat and were being exploited

[4] Cumberland, Wm. W.: "Cooperative Marketing," ch. 3.

by the elevator companies. Wheat is standardized and dealt in on organized exchanges so that the farmers could always ascertain the price of a particular grade on a particular day. It has been said that the farmer receives a higher percentage of the wholesale price for small grains than for any other farm products. Yet they believed the margin to be unjustifiably high and hence the cooperative elevators! The conditions in the sale of live stock, butter, and cheese were somewhat similar although these products are not as thoroughly standardized as are the small grains.

Methods.—The methods used vary with the products marketed. Most of the cooperative organizations, however, only attempt to place their products on the wholesale markets. California oranges are sold to the wholesale dealers in the consuming markets either through the Association's salesmen or the fruit auctions. The Associated Raisin Co. has eliminated brokers and beginning in 1921 will sell the wholesale dealers direct. Potatoes are sold to the wholesalers through the Association's salesmen or brokers. The local buyers, country shippers, brokers, and commission merchants are eliminated and the trade channel correspondingly shortened. The cooperative grain elevators are demanding the right of membership on the grain exchanges but do not propose to go further than to sell to the large buyers —millers, exporters, etc. in the large terminal markets.

Packing and manufacturing.—Most products are

sold in the form in which they are received from the farmers, although some products have to be manufactured. This is true of cheese and butter. The citrus fruit and raisin-packing houses also resemble manufacturing plants in many ways. The manufacturing process in each of these cases is relatively simple and is done for the reason that it is impractical for each farmer to provide and operate his own manufacturing or packing plant. The cooperative associations very commonly grade and pack the product of their members.

Pooling.—Most cooperative organizations sell the products for the farmers although grain may be bought outright by the association for the reason that the purchase can be immediately covered, or hedged, by a sale on a grain exchange. The products may be pooled or each shipment may be handled and accounted for separately. Under the pooling method the receipts for a certain period are averaged and each member is paid on the basis of the quantity of each grade or product delivered. In this way no member gets an unusual advantage from an especially favorable sale or bears a heavy loss as the result of a poor sale. This is the fairer method and has come into general use. The disadvantage of handling each shipment separately is shown by the following incident. "A potato association shipped out two cars of potatoes on the same day. One car found a ready market, while the other was sold at a considerably lower price, with the result that the growers having potatoes in the sec-

ond car received less than the others through no fault of their own."[5]

Standardization and advertising.—Many cooperative associations have standardized their products and insisted on the product packed by their members measuring up strictly to these standards. This has been notably true of the far western fruit, vegetable, and nut growers. These growers were handicapped by the distance from market and high freight rates. To overcome this disadvantage they placed a highly standardized and neat-appearing product on the market. They have been so successful in this practice that their products have in some instances taken the lead from the cheaper and better flavored but less standardized eastern products. Buyers prefer to handle standardized products because there is less need for inspection and the danger of "topped off" goods is absent. Consumers prefer the standardized goods because of their better appearance. Many of these associations are very careful as to the color, size, cleanliness, and labels of their products. Growers are held strictly responsible and goods of inferior quality are not sold under association labels. Many of these associations advertise their products extensively. Some brands of the western associations have become well-known through such advertising. Among these might be mentioned "Sunkist", "Sunmaid", "Skookum", "Big Y", "Diamond Brand", and "Sunsweet." This ad-

[5] United States Department of Agriculture, "Farmer's Bulletin No. 1144," p. 14.

vertising is done to increase the demand for the product as a whole as well as to effect sales over the product of non-member growers. The California Fruit Growers' Exchange, for example, advertises in magazines, newspapers, posters, street cars, trade publications and moving pictures. During 1920 national magazines alone carried its advertisements in 119,000,000 copies.[6] In this connection some of these associations employ specialty salesmen, who go to the jobbers and retailers to stimulate the sale of their products.

Purchasing supplies.—Cooperative selling has been much more successful than cooperative buying but many of these cooperative associations purchase large amounts of supplies for their members. The supplies purchased are generally for use in the production of the crops marketed, such as machinery, implements, boxes, crates, barrels, wrapping-paper, fertilizer, twine, chemicals for spraying, and insecticides—or are articles of considerable importance in the farmer's budgets such as feed, lumber, brick, oil, tires, etc. The farmers elevators in Illinois, Iowa, and Nebraska operate 292 lumber yards. The Farmers Service Company was organized in Ohio in the summer of 1920 to purchase supplies for the various cooperative associations in the State. In the first 40 days this concern handled 286 cars of coal, 20 cars of salt, 12 cars of feed and meal, 10 cars of fence posts, 12 cars of sugar, 10 cars of

[6] "Annual Report."

oyster shells, and 5 cars of fencing materials. During the first six months it reported buying 1,000 cars of supplies. The Farmers' Union State Exchange of Nebraska started business in 1914 as a brokerage company to purchase binder twine. Its activities expanded and in 1918 it reported a business of $3,000,000. In 1919 its capital was increased to $400,000 and it reported handling implements, clothing, shoes, dry goods, groceries, automobile tires, produce, etc. The tire business alone amounted to $250,000 in 1919. It has operated a wholesale department, a mail order department, and has started chains of retail stores. The Farmers' National Grain Dealers' Association has indorsed the organization of State and National purchasing associations and apparently plans are being made to extend the purchasing activities.[7]

Organization.—Most of the farmers' cooperative marketing associations are democratically controlled although all of them do not operate on the one-man one-vote principle. Some associations are formed with capital stock and others are formed without capital stock. As long as the stock is widely held it makes little difference whether voting is according to men or shares of stock. The danger of allowing one man more than one vote is that it allows a few men to get control of the associations and manage it for their own profit. This has been the fate of many cooperative enterprises. To prevent this it is com-

[7] *American Cooperative Journal,* September and December, 1920.

mon for organizations having capital stock to allow only one vote to each member regardless of the number of shares of stock owned, or to limit the number of shares that one person can hold. It is, however, difficult to prevent shares of stock being transferred. For this reason many associations have been organized without capital stock, the members being required to pay a membership fee instead. Elevators and creameries are generally organized with capital stock, while fruit, vegetable, milk producers, and live stock shipping associations are generally organized without capital stock. The California Fruit Growers' Exchange, the Florida Citrus Exchange, the New England Milk Producers' Association, and the Michigan Potato Growers' Exchange are some of the larger associations organized without capital stock.[8] Some of the organizations ordinarily considered as cooperative associations should perhaps technically not be so classed. Such capital stock corporations are, however, ordinarily considered as being cooperative organizations when the stocks are widely held by the farmers and they are so considered here.

Some farmers cooperative organizations are independent while others are members of federations. The orange and lemon growers of California are organized into 117 local associations, which are affiliated into 17 district exchanges, and one central exchange. The Nebraska Potato Producers' Sales

[8] United States Department of Agriculture, "Farmers' Bulletin No. 1144," p. 16.

Association is a federation of the local associations in the State. There seems to be a tendency toward federation for the reason that a larger organization is in a much better position to market a product than several small organizations.

Accomplishments.—There have been many failures among farmers' cooperative selling organizations due to inefficient management, lack of loyalty on the part of the members, or small volume of business. In spite of these failures the movement has grown rapidly and new associations are constantly being formed. Many of these associations are young. It is too soon to know whether they will be able to withstand a long period of depression and become permanently successful or not. Of the large California associations only the California Fruit Growers' Exchange and the California Associated Raisin Co. antedate the period of rising prices during the war.

For the most part these cooperative associations seem to have returned substantial benefits to their members. The successful associations have generally centered their activities on one product or a few closely related products. Where several different products are handled it seems best to organize separate departments to handle each product.

Benefits have come from the elimination of the middlemen's profits and from increased business efficiency. The growers have benefited from standardization and careful grading of products, from improved methods of growing and packing and ship-

ping. In most cases the number of middlemen between the farmers and the central markets, where the prices are fixed, has been lessened, and the farmers have gotten some benefits from this change. In some cases the savings have been relatively small; one, two, or three cents per bushel or pound, but the farmers have felt that they were worthwhile. It has been estimated that the cooperative elevators in Illinois in marketing 150,000,000 bushels of grain saved their members $3,000,000.[9] This is an average saving of two cents a bushel. The benefits derived of course vary with the product handled and the size and efficiency of the organization. It is to be expected that larger savings could be made with a specialty such as oranges than with a standard product like wheat or butter. The large organization able to distribute its products to the different markets as occasion demands and to sell or store its products as seems expedient should accomplish more for its members than the small association which is too small to exert a noticeable influence on supply, and which is not in a position to store its product. Non-members often benefit almost as much from the cooperative associations as do the members for the reason that private buyers must pay prices substantially equal to those realized for their members by the associations, in order to get business. This is an advantage that should not be overlooked.

Low selling expenses.—By concentrating their

[9] J. W. Coverdale, Secretary of the American Farm Bureau Federation, quoted in the *Journal of Commerce* of July 13, 1920.

sales lower brokerage rates are obtainable. The brokerage rates on California dried fruits were reduced in the Spring of 1920 from 2½ to 1½ per cent. Many of these associations have very low expenses. The Florida Citrus Exchange reported an average cost of 1.3 cents per box during the fiscal year of 1920. The California Fruit Growers' Exchange markets the products of its members at a cost of less than 2 per cent. This organization is considered by many as the most successful of the farmers' cooperative marketing organizations. The accomplishments of this organization may be enumerated as follows: reducing selling expenses from 7 to 10 per cent (commission) to less than 3 per cent; reducing losses from bad debts to 1/1300 of one per cent, the brokers formerly charging 5 per cent for guaranteeing payment of accounts; reducing packing costs from 50 cents to 30 cents per box (prewar) by eliminating profits, working plant steadily, and by cooperative purchase of supplies; improving the product and methods of packing; securing lower railroad rates and better payment of damage claims; and increasing the demand for California fruit by seeking out smaller markets, extending the season the year around, and securing cooperation from wholesalers and retailers. From 1894-95 to 1913-14, the production of California oranges increased 580 per cent while the population of the country increased only 56 to 57 per cent. In spite of this fact the growers sold their fruit at a profit in 1913-14, while many of them were losing money in the

early 90s. This probably represents the greatest accomplishments of the organization. The actual money saving from 1894 to 1916 is given by Cumberland at $34,200,000 on 228,000,000 boxes of fruit. The growers who are not members of the organization are benefited by it as private buyers must meet the Exchanges' prices in order to secure fruit.[10] Although many associations cannot hope to do this much for their members this shows what can be done by a large, efficient, cooperative organization marketing an agricultural specialty.

Danger of monopoly.—Farmers cooperative organizations, together with labor unions, are exempted from the price-fixing provisions of our anti-trust laws on the theory that the individual farmer, or laborer, is at a disadvantage in the sale of his product or labor. This may be an equitable provision as long as the farmers' organizations do not themselves become monopolies. When these organizations gain control of a very large part of a given product it is, however, hard to see why they should not either be subjected to government regulations or dissolved. There appears to be no reason why such an organization cannot secure a monopoly of a commodity all of which is produced in one locality. In fact some of the California associations have obtained monopolies of certain products, notably raisins. The California Fruit Growers' Exchange has a virtual monopoly of the California oranges and lemons but is prevented from controlling the market by competi-

[10] Cumberland, Wm. W.: "Cooperative Marketing," ch. 9.

tion with Florida and imported fruit. This suggests the possibility of the California and Florida associations combining. A combination of the California and Oregon associations would give virtual control of the domestic supply of prunes. English walnuts, lima beans, and almonds are other products that might be monopolized. The buyers have voiced their disapproval of the monopolistic tendencies and have talked of increased imports from abroad. The associations have responded with a demand for increased tariffs on imports. The mere fact that these associations are composed of farmers would not seem to justify monopolistic activities carried on by them under legal protection. When such associations become monopolies they should be dissolved under the anti-trust laws or their activities should be subjected to Government supervision. The latter appears to many to be the preferable procedure.[11]

The raisin trust. — The California Associated Raisin Co. has during the past few years controlled approximately 88 per cent of the raisin crop of the United States. This company is not strictly a farmers' cooperative association, but by making relatively simple changes in its organization it could be made to qualify as such. Conditions among the growers

[11] *The American Co-operative Journal,* commenting on the activities of the California associations said: "The California cooperators do not 'fix prices.' They simply are efficient agencies to get the best prices that the consuming market affords."—December, 1920, p. 34. This is all any monopoly selling a widely used product can do.

were admittedly bad prior to the organization of the Raisin Co. in 1913. "The raisin growers were virtually at the mercy of those engaged in packing and selling raisins . . . (who) secured to themselves the large profit, while the growers frequently failed to realize the cost of production." The Associated Raisin Co. is admitted to have benefited the growers materially but it has been accused of being a monopoly, of charging unreasonable prices, and of pursuing unfair practices. The Federal Trade Commission made an investigation of the operations of this company for the Federal Department of Justice and reported: "our conclusion is that the price fixed by the Raisin Company for the 1919 crop was in excess of a fair and reasonable price." The price fixed for 1920 was considerably in excess of the 1919 price. The company has also made a contract with another corporation "contemplating the fixing of prices, an exclusive dealing clause and involved price discriminations against other independent packers. The contract also involved a guarantee . . . against decline in price. These provisions "practically completed the elimination of the (California) Packing Corporation as a competitor." The Company has also advocated a curtailment of production in order to stimulate price.[12] This reference to the Raisin Company is made to show that there is no reason to suppose that a monopoly of farmers would be any more beneficent than a monopoly composed of man-

[12] Report of the Federal Trade Commission to the Department of Justice, June 8, 1920.

ufacturers, dealers, railroad operators, or any other class of men. The advocates of cooperation may reply that the Raisin Company was not strictly speaking a cooperative association during the period covered by this report.[13] The actions of the Raisin Co. were, however, almost unanimously endorsed by the growers and there is no reason to suppose the modification of its structure by abolishing capital stock and restricting membership to growers will lead to changed policies. Early in 1920 all old contracts were cancelled and the Raisin Co. asked the growers for new contracts running for 15 years. The Company reports that it has secured contracts covering 92 per cent of the acreage, or 12,131 out of 13,165 growers.

3. COOPERATIVE ENTERPRISES AMONG DEALERS

There are many types of cooperative enterprises among dealers. The cooperative jobbing grocery houses have already been mentioned. If a cooperative wholesale grocery house is successful it would appear that a cooperative wholesale hardware house, a cooperative dry goods house, or a cooperative drug house should also be successful. If the retail grocers can cooperatively operate their own wholesale plant, why can't the retail hardware dealers, the retail druggists, or any other class of retailers who commonly buy their goods through wholesal-

[13] On September 24, 1919, 853 non-growers held 2,553½ shares of stock, while 2,454 growers held 7765½ shares of stock. There are almost 9,000 growers in all.

ers? Some of the restaurants in New York are now buying their food stuffs cooperatively. The retail grocers did not do this, however, until faced by extinction by chain store competition and it is doubtful whether other classes of retailers will organize many such cooperative jobbing houses until forced to do so for self-preservation. The experiment is, however being tried out in other lines than groceries.

Many of the department stores maintain joint buying agencies. The idea has also been tried out among wholesalers. Cooperative delivery systems have also been tried in many towns. There is no doubt that small stores can realize large savings from cooperative delivery systems. Some such cooperative systems have been successful but many of them have failed due to the jealousies and rivalries of the individual merchants.[14] There are many other forms of cooperation that might profitably be developed among different classes of dealers. The danger of such cooperative organizations, as will be shown in a later chapter on the trade associations,

[14] The savings possible by a cooperative delivery system may be shown by the results of a limited delivery system introduced in Utah during the war. The number of deliveries made to the same buyer was limited and heavy extra charges were made for special deliveries. W. F. Jensen, State Commissioner of Commercial Economy, estimated the savings in Salt Lake City, a city of 110,000 people, at $1,000,000, the savings to the retailers at from 3 to 6 per cent of sales, of wholesalers at from 1 to 2½ per cent of sales, and the savings in total delivery expenses of from 35 to 75 per cent. Quoted in Federal Trade Commission report on "Wholesale Marketing of Food," p. 162. Still further savings should be possible by eliminating the duplication of facilities by cooperative delivery systems.

is that they will neglect the legitimate objects and proceed to illegal price-fixing activities.

Cooperative organizations among dealers are not always considered as coming in the scope of distributive cooperation for which reason they will not be further discussed in this chapter.

BIBLIOGRAPHY

Monthly Labor Review. Articles on cooperation are published in almost every number. See especially, "The Cooperative Movement in the United States," by Florence E. Parker, March, 1920; "Consumers' Cooperative Wholesale Societies in United States," by Florence E. Parker, June, 1920; and "Comparative Study of the Cooperative Movement in Various Countries," by Florence E. Parker, October, 1920.

The Bureau of Markets of the United States Department of Agriculture has published many bulletins. Articles are also published in the "Yearbook" of the Department bearing on the cooperative movement, especially on farmer's cooperative marketing enterprises.

Many of the State Experiment Stations have published bulletins on cooperative marketing enterprises. Among others might be mentioned: Minn. Experiment Station "Bulletin No. 146"; "Cooperative Stores in Minnesota," by L. H. D. Weld; Wisconsin Agr. Exp. Station "Bulletin No. 238, Agricultural Cooperation," by H. B. Hibbard; State of Washington, Office of Farm Markets, "Bulletin No. 2"; etc.

Several papers are published by organizations interested in furthering the movement. Among such papers might be mentioned: *The American Cooperative Journal,* published by the American Cooperative Publishing Company, Chicago; *Cooperation,* published by the Cooperative League of America, New York; *The National Cooperative News,* published by the National Cooperative Association, Chicago; and *The Pacific Cooperator,* published by the Pacific Cooperative League, San Francisco.

A very large number of magazine articles are published on Cooperative Marketing. The student should consult the "Reader's Guide to Periodical Literature." Among such articles might

be mentioned Nelson, N. O.: "Cooperative Stores," *Outlook,* February 16, 1916; Warbasse, J. P.: "Cooperative Movement During the War," *Public,* February 1, 1919; Sisson, F. H.: "World Wide Trend Toward Cooperative," *Annals American Academy,* March, 1919; etc.

For bibliography upon recent movement abroad, see *Monthly Labor Review, October,* 1920, pp. 166-67 (790-91).

Adams and Summer: "Labor Problems," ch. 10.

Aves, Ernest: "Cooperative Industry."

Butterfield, Kenyon L.: "The Farmer and the New Day."

Cooperation and Cost of Living in Certain Foreign Countries" (1912), 62d Cong. 2d session, House Doc. No. 617.

Cumberland, Wm. W.: Cooperative Marketing."

Coulter, John Lee: "Cooperation among Farmers."

Fay, Chas. Ryle: "Cooperation at Home and Abroad."

Harris, Emerson P.: Cooperation: The Hope of the Consumer."

Powell, G. Harold: "Cooperation in Agriculture."

Radford, Geo.: "Agricultural Cooperation."

Sonnichsen, Albert: "Consumers' Cooperation."

Woolf, Leonard S.: "Cooperation and the Future of Industry."

CHAPTER XVII—QUESTIONS

1. Why have the farmers' cooperative selling organizations been more generally successful than the cooperative stores?
2. When farmers' cooperative marketing organizations threaten to become monopolies should they be dissolved, regulated by the Federal Government, or allowed a free hand in marketing their product? Why?
3. What advantages may the farmers expect from a successful cooperative marketing organization?
4. The potato growers in a Tennessee county desire information about the desirability of forming a cooperative organization for the sale of their potatoes. The county now has several cars for export each year and could easily increase its output 1,000 per cent if the potatoes could be successfully marketed. What could the farmers expect of such an organization? Would you advise its organization? If organized how should it be managed? How should the manager go about marketing the potatoes? (See U. S. Department of Agriculture, "Farmers' Bulletin No. 1144.")

5. Would it be practical for the retail hardware dealers of a city of 200,000 people to operate their own wholesale house? Discuss.
6. What savings could the dealers in a town of 50,000 people realize from a cooperative delivery system? Why have so many such systems failed?
7. The department stores in a large western city have all their small packages delivered by parcels post. They report a substantial saving in delivery expenses. What are the advantages and disadvantages of such parcel post deliveries?

Chapter XVII

TRADE ASSOCIATIONS

Another form of cooperative organization that has become very important in recent years is the trade association. The trade association is an organization of men or concerns engaged in the same trade, or line of business, formed for the purpose of furthering the interests of its members, or of the trade as a whole. Not all organizations of business men are trade associations. Local organizations, such as chambers of commerce and boards of trade, are composed of men in different trades or industries. The aim of such local organizations generally is to promote the interest of some community rather than that of a trade. The local chambers of commerce have a national organization—The Chamber of Commerce of the United States of America—whose object is to promote the interests of business as a whole, especially in the cultivation of public opinion and the passage of laws relating to business. Organizations of farmers, laborers, and professional men are not ordinarily considered as trade associations.

Importance of trade associations.—Persons who have had no contact with trade associations perhaps do not know of their number and variety. Man-

ufacturers of everything from pickles to bridges, from tacks to fertilizer, from steel to canned peas, from flour to optical instruments, from metal lath to salt, from asbestos textiles to leather belting, and from boots and shoes to farm implements have their organizations. There are associations of manufacturers, mine operators, wholesalers, brokers, retailers, railroads, undertakers, and warehousemen.[1] The point has been made that some men attend so many meetings that their business suffers. Some large concerns have officials who spend a large part of their time attending various meetings and making speeches.

An estimate made a few years ago placed the number of business associations in the United States at 3,500 of which 1,000 were important. A report of the Bureau of Foreign and Domestic Commerce on Commercial and Industrial Organizations in the United States for November 1, 1919, lists approximately 650 interstate, national and international organizations; 600 State associations; and over 4,000 local associations. This list is admittedly incomplete, but on the other hand it includes many organizations of professional men and farmers which are not ordinarily considered as trade associations. Most of the local associations are chambers of commerce, boards of trade, and commercial clubs, which

[1] For the names of typical Associations see Department of Commerce, Bureau of Foreign and Domestic Commerce, Miscl. Series No. 99, "Commercial and Industrial Organizations of the United States."

do not come within our definition of trade associations.

The membership varies from five in the case of the Association of Creosoting companies of the Pacific Coast, to 40,000 in the case of the National Association of Retail Grocers of the United States.

Types of organizations.—Trade associations may be local, state, sectional, or national. In some industries the local or state associations may be federated into national associations. This is true for example of the state millers' associations which cooperate through the Millers' National Federation and the state and sectional vehicle associations which are federated into the National Federation of Implement and Vehicle Dealers' Associations. In some industries the state and local associations are not affiliated with the national association, the local associations devoting their attention to local matters, and the national associations to matters relating to interstate or foreign commerce or to the industry as a whole. In such cases there is likely to be a good deal of duplication of work. Some trade associations cover only highly specialized fields. This is true for example of The American Faced Brick Association, the Asbestos Brake Lining Association, or the Minced Razor Clam Packers' Association. Other Associations cover a much broader field. In such cases the association may be divided into sections to permit more detailed attention to the interests of the various members. The National Canners' Association, for example, has the follow-

ing sections: Corn, Pea, Tomato, Fruit, Wax and Refugee Bean, Kraut, Shrimp, Molasses and Sirup, Sardines, and Home Economics.

Activities.—There is a good deal of difference in the activities of different associations. The work of the retail grocers association of a small city naturally differs considerably from the work of a national association of large manufacturers. There is, however, a good deal of similarity in the activities of many of these associations. Some of the more common activities of the trade associations are the following: improvement of methods of production, education of members as to plant efficiency, accounting methods, etc.; standardization of products; obtaining legislation favorable to the industry; adoption of a uniform sales contract; agreeing upon uniform terms of sale, such as prices, discounts, guarantee, delivery, credit, etc; securing favorable freight classification and rates for their products; adoption of uniform accounting methods; cooperation in checking up the credit standing of buyers; increasing the demand for their products by advertising; gathering and distributing of information of interest to the trade, such for example as figures showing the production and sale of the product; securing newspaper publicity favorable to the industry; consideration of working conditions and wages; cooperation in the foreign sale of their product; cooperation in the purchase of supplies; and social activities such as banquets, theater parties, etc.

Some trade associations do little except hold periodical conventions at which speeches are made upon topics of interest to the members. Other associations are very active, with highly paid secretaries and attorneys, and in addition to conventions may operate experimental laboratories, carry on advertising campaigns, gather and tabulate statistics, and carry on price-fixing activities.

Activities having to do with production, such as the discussion of factory processes, wages of factory workers, introduction of new machinery, etc., do not concern us here. A very large part of the activities of most trade associations, however, has to do with some phase of marketing. Standardization of products, adoption of uniform sales contracts, cooperation of credit departments, advertising of products, gathering of market information, and fixing of prices are primarily marketing problems. Some of the activities relating to marketing are described in the following paragraphs.

Standardization of product.—The adoption of fair and uniform standards to be observed by an industry is highly desirable. Many trade associations have been active in this work. The National Canners' Association, for example, to promote the consumption of canned foods, has adopted a system of inspection of its own, in spite of the fact that the goods must conform to the federal pure food law, and that many of the states have factory inspectors to see that the goods are canned under sanitary conditions. This inspection system is conducted in con-

nection with an elaborate advertising campaign. The acceptance of the association's inspection system by the individual canners is voluntary. One weakness of standards adopted by trade associations is that they must depend very largely upon persuasion or public opinion for their enforcement. The association may expel an offending member but cannot force a non-member to produce a standard product. If non-members refuse to observe the standards about all that the association can legally do is to ask for legislation making the standards compulsory.

The manufacturers of farm implements have done much to standardize the sizes, styles and equipment of various implements. There has always been a great variation in the types of implements made by manufacturers. In 1910 an official of a large plow company estimated that his concern was making 2,000 different styles of plow bottoms.[2] Such variation in sizes and types is especially expensive to the manufacturers as they must carry repair parts or patterns from which parts can be made for all implements. Orders for repair parts may be received 30 years after the manufacture of a particular implement has ceased, for the older the implement the more likely it is to break. The carrying of such repairs ties up capital and requires space. If no parts are in stock and a few castings are made from the patterns the expense is likely much above the price of the part. A good deal of variation is nec-

[2] Bureau of Corporations: "Report on Farm Machinery Trade Associations," p. 14.

essary, due to differences in soil, topography, and crops in different sections. Yet there is no need for the large variety of styles and sizes that have been produced. The farmers want the size or style of implement that they have been accustomed to, when in many cases standard implements would serve their purposes equally as well. Yet as long as the farmers think they need an odd size it is hard for any one manufacturer to stop producing odd sizes. Cooperation is necessary to secure standardization, which should result as much to the benefit of the farmers as to the manufacturers.

As early as 1904 the National Wagon Manufacturers' Association took up the subject of standardization of wagons, such as height of wheels, type of hounds, tires, etc. The various associations of implement manufacturers have been active in trying to adopt standard implements. The movement received a great impetus during the war when the Commercial Economy Board of the Council of National Defense, and its successor the Conservation Division of the War Industries Board, urged that all unnecessary sizes and types of implements be eliminated. In November, 1918, the executive committee of the National Implement and Vehicle Association, of which nearly all manufacturers of farm implements are members, adopted a resolution to make all wartime eliminations permanent.[3]

Objects of standardization.—The objects of

[3] Federal Trade Commission: "Causes of High Prices of Farm Implements," p. 308.

standardization may be to reduce manufacturing costs, to increase sales, or to form the basis of price agreements. It is impossible to adopt uniform prices without some uniformity in the articles for the simple reason that prices would mean nothing unless they referred to similar goods. In conducting cost studies, to be described later, it is necessary that standard articles be considered, for otherwise the costs would not be comparable. The reduction of costs is highly desirable; the increase of sales is perfectly legitimate; but the fixing of prices is, under the present law, illegal.

Cooperation on credit.—Cooperation of business concerns in gathering information as to the credit rating of buyers, of preventing dishonest persons from securing goods under false pretenses, of prosecuting swindlers, and protecting themselves in other ways from losses from uncollectable accounts, is frequently carried out through trade associations. This is often one of the chief activities of local associations of retail dealers. Associations of wholesale dealers and manufacturers often devote some attention to such matters. The secretary of the association upon the request of a member may ask other members for their experience with a certain customer. Very often, however, separate credit associations are organized which do not observe trade lines but have members from different trades and industries.

Advertising and publicity.—Some trade associations carry on advertising campaigns to increase the

sale of the products of their members. This cooperative advertising is cheaper than separate advertising by each member. Such advertising may increase the sale of a product such as canned foods, white pine, or bicycles, but it does not promote the sale of any individual's product over that of his competitors. For this reason cooperative advertising is not used extensively by concerns that desire to push their own brands or trademarks. It would seem that such advertising would be used much more widely than at present by concerns selling unbranded goods or products with brands of little importance. Many associations give information to the newspapers which favor their industries. Such information may attempt to justify increased prices, to point out new uses of the product, or to deny stories which are injurious to the product.

Prices.—Of all activities of trade associations those relating to prices have attracted the most attention. Price is of absorbing interest and of great importance to all business men. Often no other subject will induce men to lay aside their jealousies and cooperate with their competitors. Under the present laws practically any kind of price agreements among competitors is illegal. The Federal laws relate to all persons engaged in interstate commerce —and there are very few except the smallest business concerns that are not so engaged. Even the smallest retailers often buy a part of their goods in other states. Many states also have laws against price-fixing. In spite of the laws, the members of many

trade associations engage in price-fixing activities. These activities are either secret or are done in some roundabout or indirect way in the attempt to avoid prosecution.

Old methods of price-fixing.—Prior to the passage of the Sherman Anti-trust Law in 1890 business men often met and agreed upon the prices of their products directly and often without much attempt at secrecy. These simple agreements were commonly called "gentlemen's agreements" as they depended solely upon the promises or "honor" of the participating parties for their fulfillment. It often turned out, however, that some of the parties to such agreements were not "gentlemen" and did not adhere to the agreed prices. Thus if there were six parties to such an agreement, five might adhere to the agreed prices conscientiously while the sixth, by quietly cutting the price, might get a large part of the business before the others realized what was going on. In order to prevent such practices various schemes were provided to force all contracting parties to maintain the agreed prices. The pool was often used, especially by the railroads through their traffic associations. One form of pool provided that all members should turn over to the treasurer, or pool manager, a given percentage of their receipts. This money was distributed at stated periods in accordance with agreed percentages to all members who had observed the rules. Another method was a division of the territory among the members of the organization. Under such a plan each member

would sell his goods only in an agreed territory and higher prices were to be quoted to any inquirers from outside his territory. In the case of railroads the traffic might be divided according to agreed percentages.

With the enforcement of the Sherman Law such practices had to be abandoned or carried on secretly. Some have argued that the prohibition of price agreements was one of the causes to the large number of consolidations formed in the years around 1900. It was illegal for six competitors to agree on selling prices, but if the six consolidated their businesses into one company there was no agreement of competitors as the new company named prices for its six plants. After the courts started dissolving such consolidations or "Trusts," the interest in price-fixing agreements seems to have been stimulated.

Increased activity in fixing prices as a result of the war.—During the war, especially during 1916 and 1917, prices were rising very rapidly. Manufacturers who sold goods for future delivery were at a loss to know what the goods would finally cost when ready for delivery. Raw materials were advancing rapidly and wages might have to be raised overnight. As a result, many manufacturers were at sea when it came to naming future prices. They set to estimating or guessing at what their costs would be. They consulted each other and called meetings to discuss future costs, sales, and prices. If they made their prices too low serious losses might follow. If they made them too high the buyers might balk.

They had no time to feel out the demand. As a result there was a great increase in the price-fixing activities of old trade associations.

During the latter part of 1917 and most of 1918, the national Government was active in fixing prices. Producers were called together and prices were agreed upon or fixed upon the basis of reports of accountants as to the costs of production. Hearings were held on the cost data obtained by the accountants and the industry affected had the right to be heard and present its idea of what prices should be fixed. The Government could not deal with individual producers. Organizations were necessary and industries that had not been organized were practically forced to form trade associations to represent their interests at Washington. The members of many of these associations entered into price agreements, at least tacitly. The defence was that the "Government" expected them to fix prices and that those were unusual times when ordinary rules did not apply. In presenting their cases to the various government boards uniform demands were advisable so that agreements were almost necessary. Also the Department of Justice showed no disposition to prosecute persons for price-fixing activities.

It should also be borne in mind in considering the price-fixing activities of trade associations during the war period that it is much easier to make and keep such agreements when prices are rising than when prices are falling.

Recent methods of price fixing.—Three recent

methods tending toward uniformity of prices, if not actually to price-fixing, are: gentlemen's agreements, open price associations, and a discussion of the costs of production.

Gentlemen's agreements.—Gentlemen's agreements are by no means a thing of the past as a method of fixing prices. The members of trade associations do not pass definite resolutions fixing prices. They do, however, often discuss prices. Such discussion is ordinarily held before the meeting is formally called to order or after the motion to adjourn is passed, so that no record of the discussion will appear in the secretary's minutes. Yet, occasionally a mention of such discussion will be found in the minutes of some secretary who forgets that his books may be inspected at any time by a government agent. For example, the report of the secretary of a mid-western canners' association said of a certain meeting in 1917: "Based on our estimate of such costs, we felt that 90 cents for standard corn was as cheap as we could pack it.....Most..... canners offered goods at that price. There was no collusion or agreement of any kind between packers, but simply a general consensus of opinion that we could not afford to sell it cheaper."[4]

Very often the members simply talk over the subject of prices around the hotel lobbies, around the convention hall, or during meals. No formal agreement is entered into, but very often an

[4] Federal Trade Commission: "Report on Canned Foods, Vegetables and Fruits," p. 86.

understanding is reached and the members go home knowing what prices their competitors are going to name. The members who have ideas of liberal prices do all they can to induce the members who have ideas of lower prices to raise their prices to a level with those they desire to establish. If the conservatives refuse, the others may have to reduce their proposed prices to meet the latter's prices, or else a compromise is effected. No formal agreement has been made in this case, but the intent to fix prices clearly exists.

Agreements are also made as to the dates when prices will be changed, and as to the percentage by which prices shall be increased or decreased. Terms of sale such as length of credit, amount of cash discount, etc., may also be agreed upon. Agreements as to terms of sale are made openly by some associations as they do not believe them to be illegal.

Open price associations and comparison of prices.—The object of open price associations and of comparisons of prices by competitors is to enable all members to have full knowledge of the prevailing prices, or of the prices of their competitors, so that they can make their prices "intelligently." In open price associations the members usually report the prices received for goods sold, or the prices submitted on bids, to the secretary who tabulates the reported prices and distributes the information, to all members or to the members entitled to receive it under the rules. At times the information is given to the press. This was true of the information

gathered during 1916 and 1917 by the National Canners' Association.[5] Under the plan used by the Bridge Builders' Structural Society copies of all bids were sent to the secretary who at once transmitted the information to other members submitting bids when the copies were unsealed. If copies of bids were sealed the prices were not distributed by the secretary until the contract was let.[6]

Price comparisons consist in the exchange of price information by competitors. The members of an association may exchange information as to their prices, or as to their proposed prices. This may be done at a meeting, or different concerns may exchange their prices directly.

Open price associations have been declared by several lawyers to come within the pale of the law although their legality has not been finally passed upon by the Supreme Court. The object of exchanging prices is to promote price stability, price uniformity, and to increase profits by raising prices.

Following an exchange of price-lists by members of the Wisconsin Pea Packers' Association in 1917, it was found that over 95 per cent of the prices quoted by different members for future delivery were within 5 cents (a dozen) of the secretary's own prices which had been sent to all members.[7]

[5] Federal Trade Commission: "Report on Canned Foods, Vegetables, and Fruits," p. 81.

[6] Tosdal: "Open Price Associations," *The American Economic Review*, June, 1917, p. 342.

[7] Federal Trade Commission: "Report on Canned Foods, Vegetables, and Fruits," p. 87.

Sellers naturally want to receive as much as possible for their products. When they know what others are receiving they naturally dislike to sell for less, especially when their prices are to be reported to their competitors. The agreement to report prices is an incentive for a seller to resist a demand from a buyer for a concession in price. A man doesn't want to be scorned or called "weak-kneed" by his friends. There is no legal obligation on a seller to make his price in line with those of his competitors, but the force of their opinion may be very effective. A member is not bound to submit his prices. The only punishment is the withholding of information as to other's prices or expulsion from the association. The temptation is always present for a concern to shade the prevailing price to secure a desirable order and then either fail to report the sale or to report it at a price higher than actually received as, for example, failing to mention a special discount. If such practices become known, other members are likely to take similar action to protect themselves. If such practices become general, the whole scheme is likely to be abandoned. This is why such schemes may operate successfully and help to push prices up when the demand is strong and prices are rising, and then fail altogether in a falling market. Open price associations were very common from 1912 to 1920, but very little was heard of them during the period of falling prices during 1920 and 1921.

Open price associations often go further than to

exchange prices and engage in price-fixing either because of ignorance of the law or in a deliberate attempt to evade the law.[8]

Cost discussions.—There has been a great increase in the interest in cost accounting in recent years and many trade associations have seized upon cost accounting as a cloak under which they secure price uniformity or form price agreements. Education in cost accounting is a good thing. All business concerns should know their costs. Uniform accounting methods would apparently be desirable in many industries. Discussion of cost accounting, however, is one thing and a discussion of costs is another thing. Many trade associations, under the guise of discussing cost accounting, have discussed costs in order to agree upon or determine average or typical costs of production. It is clear that in many cases the cost figures agreed upon in these cost meetings were to be used as selling prices or as the basis of selling prices, members adding reasonable profits to the agreed cost to determine their selling prices. It has been admitted by association officers and proven by letters published by the Federal Trade Commission that the object of many of these cost discussions was to determine selling prices and that the average or typical costs were simply a means to an end.

The cost figures arrived at are often purely arbitrary or estimated figures. They are infrequently

[8] Tosdal: "Open Price Associations," *American Economic Review*, July, 1917, p. 351.

based on the actual costs of the members. Often the materials are taken at uniform prices submitted by the secretary, which may be the quoted market price, but not the price actually paid by any of the members. Again cost estimates may be based on a certain output, as so many cases of peas per acre. Since the cost figures are really intended as a basis of future prices the costs must be estimated, as no actual costs can be determined in advance. This is particularly true during a period when prices, and hence costs, are rising. Average costs, at best are purely arbitrary if not entirely meaningless. The members of the association often know nothing of the theory of marginal or "bulkline" costs, but their estimates of average costs are often so liberal that they let most of the producers out with a profit and hence approximate the actual "bulk-line" cost.

The average or typical cost figures arrived at in these association meetings are often distributed to all members whether present or not, and at times have been sent to all producers whether members of the association or not. One trade association secretary had these cost estimates printed on the back of his letterheads.

The discussion of, or agreement upon, "costs" has been very common in trade associations in recent years. Cost discussions may be accompanied by gentlemen's agreements or "understandings" as to price or may be conducted with price exchanges. They have undoubtedly tended to greater uniformity of prices and have probably also helped to increase

prices. They are used more in periods of rising than of falling prices. When prices are falling, producers are not especially anxious to get together and estimate how much their costs will decrease during the next few months. This is, however, just as logical and practical as to estimate how much costs will increase during periods of rising prices. If the advocates of cost discussions really believe in what they advocate, they should hold such discussions regularly regardless of the trend of prices. Many trade associations have entered upon cost discussions with the idea that they were legal. No legal objection can be made to a discussion of accounting forms. Such discussions may go as far as to discuss the percentage of depreciation that should be charged against different types of property and machinery, or to the proper methods of determining and distributing overhead and general expenses. However, when an association goes from a discussion of cost accounting into a discussion of costs of production it is on questionable ground. Average or typical cost figures arrived at in such discussions are meaningless except as a basis of prices. Many, if not all, members understand that the agreed costs are to be made the basis of prices.

Trade association secretaries generally realize that discussions of prices are dangerous and so warn their members to speak of "costs," but not to mention "prices." In spite of such continued warnings members frequently use the word "prices" in such

a way as to show that price is really what they are thinking about.

There is no doubt in the writer's mind that many associations have used cost discussions to camouflage price-fixing agreements, that the intent has often been to fix prices, and that if evidence of their activities were presented to the courts, convictions would follow. Referring to cost discussions the Federal Trade Commission has said: "While it is clearly desirable that each producer should accurately know his own costs, it is very doubtful if any public interest is served by the producers having meetings to discuss each other's costs."[9]

Are price agreements effective.—It may be argued that it is needless to prosecute competitors for agreeing upon prices for the reason that such agreements are ineffective when the prices agreed upon are unreasonably high. This is said to be true for the reason that if prices are fixed high enough to produce large profits that such large profits will draw other producers into the industry and restore competition. The truth of this depends upon how easily others may enter the industry. In the case of retailing, new men can enter easily and quickly, but with manufacturing it often requires considerable skill, capital, or the control of raw materials, so that considerable time is necessary for new concerns to become established in the industry.

[9] Federal Trade Commission Report on Canned Foods: "Vegetables and Fruits," p. 8.

Then, too, there is the possibility of inducing the new producers to become parties to the agreement.

It is also argued that price agreements will be ineffective when the prices are fixed too high for the reason that the desire to make profitable sales will lead members to violate the agreement and cut prices.[10] Business men sometimes refuse to become parties to such agreements, because they are not adhered to by all members. Thus when such agreements are in force certain members will secretly cut prices and obtain the bulk of the business, while their more scrupulous brothers, who adhere strictly to the agreement, have their goods left on their hands until the price cutters are sold out. There is no doubt that such practices have at times led to the abandonment of price agreements.

The effectiveness of price agreements depends upon the strength of competition, the number and attitude of the producers, the trend of prices, and the seriousness of price cutting. It is much easier to get a few men together and hold them in line than to get a large number into such an agreement.

[10] A. B. Farquhar, in "My 64 Years in Business," brings out this idea in the following way: "By some tomfoolery or other, be it open price association, trade association, or what-not, they solemnly restrict production and hold out for price. They make the price—but nobody buys. They keep right on making the price until one fine morning some intelligent man awakes to the fact that business does not grow out of making prices but out of selling goods and the whole house of cards goes crashing. I have seen that happen so many times that I now regard it as one of those events in nature that seem inevitably to happen."—*System,* March, 1921, p. 385.

Also when price competition has been very keen and many men have been losing money they are more likely to lay aside their jealousies and form agreements than when prices have been high enough to yield fair profits. Again such agreements are more likely to be observed when prices are rising and a "seller's market" exists than when prices are falling and the buyers control the situation.

There is no doubt that prices have at times been boosted as a result of price agreements. During periods of rising prices such agreements have pushed prices up more rapidly than would have been true under free competition. When prices are falling, price agreements may also retard the decline. It is, however, extremely difficult to make a general statement as to the effectiveness of price agreements in raising and maintaining prices.

Are price agreements desirable.—It is argued by some that price agreements tend toward staple and uniform prices, which are fair to both buyers and sellers. It is contended that associations of producers, or merchants, are in a better position than any one else to make prices intelligently. Stable prices are desirable, and it is said that price agreements would prevent both unreasonably low and unreasonably high prices and so prove fair to both the buyers and the sellers. It is argued that the German cartels, which in many respects resemble our trade associations, were permitted to fix prices and that these prices were fair to the buyers.

It must be admitted that competition has been

modified by price agreements, either direct or tacit, entered into in spite of the law. Further restriction of competition has resulted from the growth of large business organizations which dominate various industries. Large organizations, such as the Standard Oil Co., U. S. Steel Corporation, International Harvester Co., the American Can Co., and the American Woolen Co. are potent factors in making prices. The "independents" commonly follow the prices set by their large rivals. Often their position is "we can't get more and we'd be foolish to sell for less." When the market is strong they may go above the prices set by the big concerns and when the market is weak they may cut the prices slightly, but as a general rule they ordinarily stick pretty close to the prices set by the big companies. It is argued that the government should recognize conditions as they are and allow the trade associations to fix prices. The United States, however, is not ready to give the associations a free hand. The people do not believe in price agreements. The producers do not as yet fully realize the responsibility of fixing prices and are not sufficiently imbued with the idea of public service. It appears that the German cartels often "squeezed" the domestic buyers in order to sell cheaply abroad and so build up their foreign trade. Hence the proposal to allow price agreements to be made under government supervision, the government to exercise a veto on all prices in order to see that the interests of the consumers were protected. Such an arrangement might

lead to a government price-fixing, which as yet appears to be of questionable desirability.

The Webb Pomerene law allows competitors to form cooperative associations and fix prices for the export trade under the supervision of the Federal Trade Commission. Up to the close of 1920, 43 such associations with 732 members had registered with the supervisory body.

Desirability of government supervised price agreements.—The desirability of government supervised agreements is questionable. In industries where competition is very keen such agreements would likely benefit the producers. In industries where great concentration has taken place such agreements would likely benefit the consumers. The Government would likely use the marginal or the bulk line theory in determining the fairness of prices. When competition is very keen prices may be lower than the bulk line cost with resultant loss to high cost producers. This causes these high-cost producers to lower their costs or to drop out of the industry. Under price-fixing there is less incentive to efficiency as prices would be set high enough to allow most producers to realize a profit. When competition is limited the prices may be higher than the bulk line cost. In such cases government supervision would result in lower prices. It then seems that price-fixing under government supervision is desirable when competition has been largely eliminated either by consolidations or unsupervised agreements as to prices.

Conclusions.—Trade associations can do much that is beneficial. Improvements in methods or lowering the costs of production; introduction of better accounting methods; improving the quality of output; improving methods of packing and shipping goods; and standardizing products are all very commendable activities. Much good can come from the right kind of cooperation through trade associations. The trouble is that many associations pay too little attention to activities that are legitimate and desirable and engage in price-fixing activities that are illegal and of doubtful desirability. The suggestion has been made that trade associations be allowed to fix prices under government supervision. Such agreements would apparently be in the interest of the public only when competition is already stifled by price agreements or by consolidations in the industry.

BIBLIOGRAPHY

Federal Trade Commission Report on Canned Foods: "Canned Vegetables and Fruits," Chapter 5.

"Causes of the High Prices of Farm Implements," pp. 31 and 32 and chs. 7 and 8.

"Commercial Wheat Flour Milling," 1920, pp. 39-41 and 110 to 115.

Bureau of Corporations: "Farm Machinery Trade Associations."

Tosdal, H. H.: "Open Price Associations," *American Economic Review,* June, 1917 (vol. 7, p. 331).

Eddy, Arthur Jerome: "The New Competition."

Montague Gilbert H.: "Business Competition and the Law."

Haney, Lewis H.: "Price-Fixing in the United States During the War," *Political Science Quarterly,* vol. 34, pp. 104-126; 262-289; 434-453, March-September, 1919.

Department of Commerce, Bureau of Foreign and Domestic Com-

merce, Miscl. series No. 99, "Commercial and Industrial Organizations of the U. S."
Naylor, Emmett Hay: "Trade Associations, Their Organization and Management."
Stevens, W. H. S.: "Unfair Competition," ch. VI.
Bruce, William George: "Commercial Organizations, Their Function, Operation, and Service" (covers work of chambers of commerce).

CHAPTER XVIII—QUESTIONS

1. What is a trade association? Do you believe trade associations return benefits to their members commensurate with the time and money spent on them? Why or why not? Enumerate advantages that may come from a well-managed and active association.
2. If you were secretary of a large local association of retail merchants, what activities would you recommend that the association carry on?
3. Under the present law how far may trade associations go in discussing costs and prices?
4. Do you believe that trade associations should be allowed a free hand in fixing prices? Why or why not?
5. The American Blank Manufacturers Association has twelve members while the Interstate Blank Dealers' Association has four thousand members. Which association is most likely to engage in price-fixing? Why?
6. What results would likely follow the legalizing of price-fixing by trade associations under government supervision? Enumerate probable advantages and disadvantages of such permission. Would such a policy lead to government fixing of prices?

Chapter XIX

MARKET ANALYSIS

Necessity of calculating sales possibilities.—Before starting any kind of a manufacturing or mercantile enterprise the available volume of business should be carefully estimated. A failure to do this may lead factories to be started to produce articles for which the demand is too small to justify the expenditures, or stores to be located where there is a lack of customers. Some investors erected a $150,000 plant in New England to make an ingenious office appliance. When the plant was completed it was found that it could turn out enough machines in six months to supply the entire market for ten years.[1] This may be an extreme case, but it shows the necessity of carefully analyzing the market before launching a business venture. Many concerns have failed through a failure to analyze the selling possibilities of the product, of making a product unsuited to the market, of adopting the wrong selling policy to develop the potential demand, or of choosing a poor location for reaching the market. Many concerns have achieved success when they realized the limitations on the sale of the old prod-

[1] Frederick, J. George: "Modern Salesmanagement," p. 16.

uct and started to manufacture a new product or to change their old product so that it would appeal to a larger number of buyers.

In the following pages a few examples will be given which it is hoped will suggest methods by which the sales possibilities of any article may be calculated.

New products to meet demands—farm tractors.—The Minneapolis Steel and Machinery Company had been making steam engines. The market was highly competitive, selling expenses high, and the company located at a distance from most purchasers. It was finally decided that a radical change would have to be made in the product or in the selling policy. In looking over the field it was found that a demand for farm tractors was developing and that their plant, located near the great Northwestern wheat belt, was advantageously situated for the production and sale of tractors. It was therefore decided to make tractors. Great care was taken to adapt the tractor to the needs of the farmers. As a result the sales of the company increased eightfold.[2]

Automobile paint.—A manufacturer of paint noticed that one salesman was turning in exceptionally large orders for one particular kind of paint. Upon making inquiry it was found that the salesman was selling this paint for automobiles. The company had overlooked the fact that many people painted

[2] Gillette, Geo. M.: "How Changing a Policy Multiplied Our Sales by 8," *System*, March, 1921.

their own cars and hence that a consumer demand already existed for a convenient paint at a reasonable price. By changing this paint slightly to better adapt it to the purpose, by labelling it automobile paint and pushing its sale, it became one of the concern's leaders and greatly increased the company's sales.

Other products.—A New Jersey canning factory after several years of success suffered a period of declining business. An employee got the idea of canned condensed soups selling for 10 cents a can. Campbell's soups were the result. A man in Vermont had been making magic lanterns, but the movies were destroying his business. He conceived the idea of the "kiddie car," of which nearly a million were made in 1920. A glass works at Corning, New York, had been making lantern globes, semaphore lenses, and similar products. The wife of a man in the business noticed a beaker in the plant, which she took home and tried as a pudding-dish. This called the attention of the firm to the demand for cooking dishes. "Pyrex" was the result.[3]

Use of questionnaires in determining demand.—It is not an easy matter to determine just what the consumers want. Theoretically the retailers should inform the manufacturers through the latters' salesmen or through the jobbers as to the consumer demand. In practice, however, the information ob-

[3] Dickinson, Roy: "Where Are My 1921 Customers Coming From?" *Printers Ink*, Jan. 6, 1921

tained in this way is often very meagre. The manufacturer may, of course, judge demand from his sales records. The trouble with information obtained in this way is that it is often received too late to act as a guide in the production of goods. At times manufacturers go direct to the consumers with questionnaires to obtain this information.

Men's underwear.—A manufacturer of men's underwear recently secured information in this way from 2,000 men, principally commuters in New York City, concerning their preferences as to underwear. A tabulation of the information showed that 23 per cent preferred medium weight two-piece wool suits; 22 per cent preferred medium weight wool union suits; 15 per cent preferred nainsook cotton union suits; 9 per cent preferred heavy wool union suits; 8 per cent preferred balbriggan cotton union suits; 7 per cent, heavy two-piece wool suits; 5 per cent preferred nainsook two-piece cotton suits. The preferences of the other 11 per cent were scattered. As to color, 62 per cent preferred white; 22 per cent light tan or écru, and 16 per cent gray. As to fit, 36 per cent preferred snugly fitting garments; 33 per cent medium fitting garments, and 31 per cent loose fitting garments. In buying underwear, 60 per cent of the men stated that they looked first for fit, while 21 per cent looked first for the weight desired.[4]

[4] Bulletin of Robert Reis & Co., quoted in the *New York Times* of October 24, 1920.

This information should be very helpful to both manufacturers of and dealers in men's underwear. The limitation on these figures is that other classes of men and men in other parts of the country may have preferences very different from those of the New York commuters. This shows the limitation in the use of questionnaires—the expense of getting enough filled out to correctly reveal the actual demand from all classes of buyers in all parts of the country.

Location of stores.—Many stores have failed because they have been located where there were too few customers or where business could only be obtained by taking it away from other similar stores. It was pointed out in a previous chapter that many chain stores never open a new store without counting the number of passers-by and noting their characteristics. Often a merchant fails to take this precaution and locates his store where there are not enough customers to justify the venture. Suppose it is proposed to open a fancy grocery and delicatessen store in a small town. There are several grocery stores in the town, but none of them carry a large stock of fancy groceries and prepared foods. Are there enough people in the town who would patronize such a store to make it a profitable undertaking? This depends not merely on the population of the town but on the character of the people. Such a store would be more likely to succeed in a town where many wealthy people live than in a town made up almost entirely of factory workers.

It would be more likely to succeed in a town where many people live in apartments than in a town where most of the people live in houses and where domestic servants are relatively plentiful. An analysis of the situation showing the population of the town, the approximate number of families in the various income groups, and the methods of living and buying habits of the groups that such a store can hope to reach will be helpful. Such an analysis will not ensure the success of the store, but it will show whether or not the store has a field for success and what business it can hope to develop.

Measuring the buying power of a community.—A department store in a small city had one department that had been losing money for many years. One manager after another was employed and finally one was obtained who made the department break even. At first the owners of the store were happy, but the thought came to them that if the department could break even that it could be made to produce a profit. They started out to ascertain the buying power of the community. They first consulted the census to get the population of the city and of the tributory townships. Realizing that buying power does not depend entirely on numbers they also attempted to ascertain the number of people receiving different incomes. Permission was secured to inspect the payrolls of the various factories in the town. An idea of the income of the farmers could be obtained from the size of their farms, fertility of their land, the crops raised, and their living

methods. From this information the store owners were able to approximate the amount of the kind of merchandise in question consumed in the community. This survey showed that business was available. Considering the number of competitors, however, it was apparent that this store was not receiving its share of the business, at least measured by the proportion of the community's business which it received in other lines. This study showed that the trouble was within the department. Attention was centered on the department and it was found that the firm had been too conservative in the purchase of goods. It had not kept up with the changes in demand so that the people went to other stores to get up-to-date goods. A change in buying policies together with a better display of the goods and more advertising made this a profitable department.

The Curtis Publishing Company a few years ago made an estimate of the trading population and the volume of department store business in each city of over 5,000 population. Some sales organizations use such information to check the uniformity of their sales.[5] If a certain concern finds that in many communities its sales amount to $10 per million of general business, but in others that its sales are materially below this figure, it should look for the trouble. Due allowance must be made for the cli-

[5] Parlin, C. C. "Merchandising of Textiles," published by the National Dry Goods Association, p. 16.

mate, race, etc., of the community. If such factors do not explain the small sales, search should be made in the concern's selling activities. Perhaps the salesman works the town hurriedly, perhaps the concern has a poor local representative, perhaps little advertising has been done in the community. Whatever the reason, when it is once found intelligent attempts can be made to remedy conditions and improve sales.

Some local peculiarities in demand have been observed. For example, Boston and Poughkeepsie are said to be good towns for the sale of lisle hosiery. Hartford, Conn., on the other hand is said to be a good town for the sale of silk hosiery.

Importance of market analysis to merchants.— Every merchant who overbuys or underbuys has failed to accurately measure demand. The merchant who fails to stock new products, thereby forcing his customers to patronize his competitors has failed to anticipate demand. The importance and difficulty of anticipating demands have been discussed in a previous chapter and cannot be discussed again at this point. An analysis of the buying power of their communities would, however, help many merchants to determine whether they were selling the quantity of the various goods which they could reasonably hope to sell. Such analysis will also warn them against spending money in advertising and display of goods out of proportion to the sales which can reasonably be expected. At the time of this writing the dealers in electric goods in Cleveland,

Ohio, are reported to be carrying on a campaign to bring the per capita use of electric merchandise up to that attained in several other cities.

Factors affecting demand.—Several factors must be considered in ascertaining the demand for different articles. The demand for some articles, such as foodstuffs, depends very largely upon the population. The entire population, with the exception of the babies, is a potential consumer of such articles as eggs, milk, baked beans, rice, and dried fruits. But even with foodstuffs, other factors than mere numbers must be considered. The wealthy buy more food because they waste more. The laboring class may need more nourishment, but they generally buy cheaper foods than the wealthier classes. Race, climate, custom, and occupation must also be considered. Much less food can be sold to farmers in a mixed farming district than to farmers in a specialized farming district and much less to farmers in a specialized farming district than to city dwellers. The demand for many other products is much more limited. The demand for tabulating machines is limited to offices that have a large amount of statistical work to do. The buyers of raw cotton are limited to a thousand or so manufacturers, while the demand for cotton cloth and hosiery extends to 100,000,000 people in the United States. The demand for raw materials is ordinarily limited to the manufacturers using this product. The number of manufacturers of different products varies widely. There are, for example, about 7,000 merchant wheat

flour mills in the United States, compared with some half-dozen manufacturers of binder twine.

Income.—Mere population figures are useless in determining the demand for many articles, for example automobiles. Few buyers could be found for an expensive car in a slum district, while a fashionable residential district might furnish a very large number of buyers. The same is true to a very large extent with clothing. Well to do people buy more clothes than poor people. They also buy a different type of clothes. This is also true of furniture, rugs, musical instruments, and many other articles. The information desired for the sale of such goods is not the total population of any territory, but the number of persons in the various income groups.

Statistics of income.—Figures published by the Bureau of Internal Revenue show that the following number of persons received different incomes during the calendar year 1918. (See table page 498.)

Married men with incomes of over $2,000 and single men with incomes of over $1,000 were required to file returns. One return was filed for approximately every five families and for every 6½ adult males. Figures based on tax returns cannot be taken as entirely accurate as a certain number of people fail to file returns or understate their incomes. The incomes during 1918 were considerably larger than during the years preceding the war, but were likely considerably smaller than during 1919. In spite of these limitations, the figures are very valuable.

NUMBER OF PERSONS RECEIVING THIS INCOME

Income Class	*Number*	*Per cent of Total*
$ 1,000— $2,000.....	1,516,938	34.28
2,000— 3,000.....	1,496,878	33.83
3,000— 5,000.....	932,336	21.06
5,000— 10,000.....	319,356	7.22
10,000— 25,000.....	116,569	2.63
25,000— 50,000.....	28,542	0.65
50,000— 100,000.....	9,996	0.23
100,000— 150,000.....	2,358	0.05
150,000— 300,000.....	1,514	0.035
300,000— 500,000.....	382	0.009
500,000— 1,000,000.....	178	0.004
1,000,000 and over.....	67	0.002
	4,425,114	100.00

The salesmanager should not lose sight of the fact that only two out of every thirteen men had sufficient earnings to necessitate filing income tax returns; that only 10.8 per cent of those filing income tax returns reported incomes of $5,000 or over; that only 3.6 per cent reported incomes of $10,000 or

*The figures for 1917 and 1916 are as follows:

	1917	1916
$ 1,000—$ 2,000.....	1,640,758	.....
2,000— 3,000.....	838,707	.....
3,000— 5,000.....	560,763	157,149
5,000— 10,000.....	270,666	150,553
10,000— 25,000.....	112,502	80,880
25,000— 50,000.....	30,391	23,734
50,000— 100,000.....	12,439	10,452
100,000— 150,000.....	3,302	2,900
150,000— 300,000.....	2,347	2,437
300,000— 500,000.....	559	714
500,000— 1,000,000.....	315	376
$1,000,000 or more.....	141	206

over; and that only 0.98 per cent reported incomes of $25,000 or over. A product that is only within the reach of the wealthier classes necessarily has limited sales possibilities.

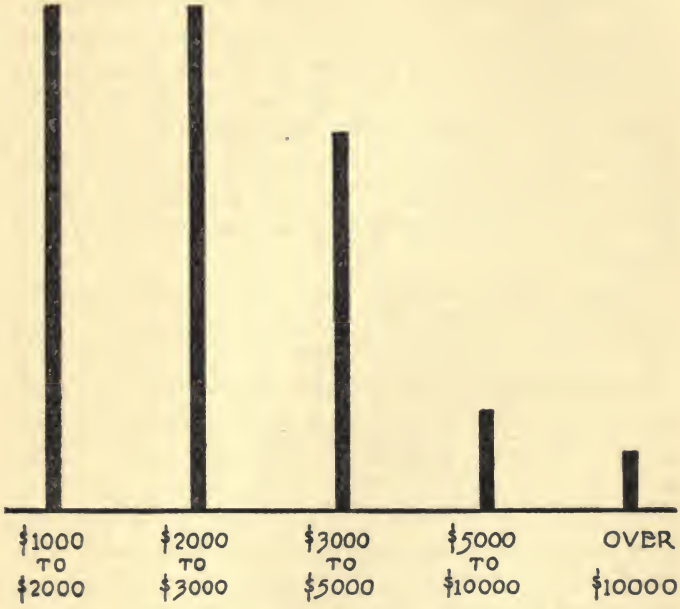


Chart 9

NUMBER OF PERSONS REPORTING DIFFERENT INCOMES IN 1918
(BUREAU OF INTERNAL REVENUE)

Occupation.—The demand for many articles depends upon occupation. Only the farmers need farm implements. The demand for overalls is very largely limited to farmers, artisans and laborers. Only the

railroads and industrial concerns that do their own switching are buyers of locomotives. Carpenters' tools, however, may be sold to three classes of buyers. First, carpenters who want good tools and who buy very largely on their past experience and the reputation of old brands. Second, farmers who need substantial tools but who are less particular about quality than the carpenters. Third, the city dwellers who need a few tools for doing odd jobs. They do not need a high quality of tools and seldom need to replace wornout goods. They are most likely to buy the tools they see advertised or those offered by the local dealers.

Other factors.—Age, race, sex, habits, customs, and climate also exert an influence on demand. Toys can be sold only where there are children. A wealthy community with few children may, however, spend more for toys than a poor community with many children. Children's clothing, story books, etc., are sold in proportion to the child rather than to the total population. The effect of sex, habits, and customs on demand have previously been commented upon. Climate also exerts a strong influence on demand. The people in Minnesota need fewer light weight clothes than those in Florida. The people in California may wear clothes of uniform weight the year around while those in Chicago may demand entirely different kinds of clothes for summer and winter wear. More porch furniture may be sold in the South, where the summers are long, than in the North, where the summers are short. The

climate may also affect the types of goods sold for building, heating and furnishing houses.

MEASURING DEMAND

Cotton pickers.—Suppose a successful cotton-picking machine were invented, which could be sold at a moderate price. A demand for this might be taken for granted as the amount of cotton that can be grown is limited by the amount that can be picked. The picking requires a very large amount of human labor. Before starting production the approximate demand should be ascertained so that the proper production program could be planned. There are in the nine cotton States (Alabama, Arkansas, Georgia, Louisiana, Mississippi, Oklahoma, North Carolina, South Carolina and Texas), 2,297,055 farms according to the 1920 census. Although some cotton is grown in Tennessee, Florida, and Virginia, this would be offset by farms in North Carolina, Louisiana, Texas, Oklahoma and other cotton States that do not raise cotton.[7] Then the farms in Arizona, New Mexico and California raising long fibre cotton must be considered. Some use has already been made in these States of the pneumatic picking machine. The number of farms in the cotton growing states could not, however, be used as a guide to the number of machines that could

[7] A better method would be to consider the number of farms by counties, the total number of farms in all cotton growing countries being ascertained. For illustrative purposes the author has not felt it necessary to do this.

be sold, due to the tenancy system and the census' definition of a "farm." A very large part of the cotton is grown by colored tenants who generally do not furnish the implements used. It is not to be expected that such tenants would purchase cotton pickers. The white owners of the land would furnish the purchasers so that one machine might be used to pick the cotton on several census "farms." The 1910 census gathered figures from 39,073 plantations, i.e., continuous tracks of land under single supervision and having at least five tenant farmers. On these 39,073 plantations were 398,905 tenant farms. Some of the white planters might buy more than one machine, but it certainly could not be hoped to sell one for each tenant farm, if as assumed one machine would pick a large acreage. The demand from these 39,073 plantations would likely be nearer 50,000 than 400,000. There are some three to four times as many landowners having two, three and four tenants as have five or more tenants. Considering these facts the number of potential buyers in the South would be reduced from 2,297,055 to something like 1,500,000. To this must be added the potential buyers in the Southwest to get the number of potential buyers in the United States. This does not consider the possibility of sales to Egypt, India, or other cotton producing countries.

The rapidity with which the machines could be introduced would depend upon their accomplishments in actual operation, the saving involved in their use, and their selling price. When the market

was once supplied, business could only come from replacement orders. The amount of business then obtainable would depend upon the average length of life of the machine. Suppose it is concluded that 1,600,000 of these machines can be sold, that it will take five years to secure complete introduction, and that the machines will last an average of ten years. During the first five years, average sales of 320,000 might be expected. During the next five years sales will be expected to be light; orders being received principally for repair parts, and for machines to replace those that wore out in less than ten years. Foreign markets might be developed during this period. At the end of ten years sales of 160,000 machines per year may be expected. Sales, however, will not be uniform for all years. They will be much larger in years when the cotton farmers are prosperous than in years when "times are hard."

Another factor that must be considered is the possibility that the picking machine will so cheapen production and increase the acreage of cotton grown that many more than 1,600,000 machines will be needed.

Competition.—If the production of these machines is competitive, no one concern can expect to secure all the business and plans should be made accordingly. If the original producer has a patent monopoly he can make his plans with greater assurance. The probability, however, is that other machines will soon appear on the market either by infringing his patents or by developing different

designs which will do the same work without infringing his patents.

Farm tractors.—Slightly different information is needed to determine the potential market for farm tractors. According to the 1920 census there are nearly six and a half million farms in the United States. How many of these farms can be expected to furnish buyers for tractors? This depends to a large extent on the size of the farms. Less than 20 per cent of the farms contain more than 174 acres. If the tractor is made so heavy that it can be used profitably only on large farms the market is thus limited to something over a million customers.[8] Some of the larger farms may buy several tractors, but the demand could hardly exceed 1,500,000. If, however, a tractor is built that can be profitably used on smaller farms, the market will be greatly increased. Almost one-fourth of the farms range in size from 100 to 174 acres. Hence a tractor suited to this size farm will have over a million and a half possible customers. Approximately 45 per cent of our farms range in size from 20 to 99 acres. A tractor suited to such farms will have nearly two million possible users. It cannot, perhaps, be hoped to place a tractor on every farm, for the reason that some farms in hilly and mountainous regions can not successfully use them. The wisdom of developing light tractors adapted to the use of the small farmers is, however, apparent. Here, also, is the

[8] Here again the census' definition for a "farm" should be remembered.

reason for the pulley. Many small farmers will not buy tractors merely for traction power, but when the tractors also furnish belt power for running the feed mill, separator, woodsaw, etc., the reasons for buying are doubled.

Railroads.—When new railroads were being built many elaborate estimates of the traffic that could be developed were prepared by the promoters. A road built through an unsettled section of the middle western prairies could be expected to develop the land for about six miles on either side. Thus each mile of road could be expected to form the outlet for 7,680 acres of land. All of the farmers not only have goods to sell, but must purchase supplies. Beyond six miles cattle raising may be carried on until the territory is reached by branch lines or other roads. With motor trucks the distance which farm products may be hauled to market is much greater than six miles. When the roads crossed the one hundredth meridian into the semi-arid region much less traffic could be expected from farm crops. The traffic available from any mines or quarries that the road will open can also be estimated. A road built through a timbered region can estimate the number of feet of marketable lumber per acre. If it is expected that the cleared land will be brought under cultivation the future traffic of the road may be secure. Roads built to move lumber sometimes find themselves without traffic when all the lumber is marketed. A road can also expect that certain towns and cities will grow up along its lines, all of which

will have goods to ship and supplies to buy. Manufacturing towns bring together larger numbers of people than commercial towns. Hence the desirability of the territory for manufacturing enterprises should be considered.

If a road connects large cities, or forms a connecting link in a through line, it may expect to share in the through traffic. The amount of through traffic which a road receives depends on its agreements for the interchange of traffic with other roads and the efficiency of its traffic soliciting organization. The amount of traffic received from competitive points depends upon the convenience of its terminal facilities, its ability to supply cars and move its trains expeditiously, the success of its solicitors, and its reputation for good service and square dealing. We have had many examples of railroads, as well as factories, that have been failures due to a lack of business. In some instances roads seem to have been built without carefully analyzing the situation, again the territory has failed to develop as expected, in other cases the road was built as part of a through route which was never completed, and in still other cases the road failed to wrest traffic from its competitors.

Automobile accessories.—The maker of an accessory or attachment has a very definite market. The man who makes an attachment for a Ford automobile has a well-defined market. A young man recently sought the author's advice about an automobile accessory which in the past has only been

used to a limited extent on the more expensive cars. It was evident that his market would be rather narrow unless he succeeded in selling to the owners of moderate priced cars.

Electrical goods.—Electrical appliances for domestic use can only be sold for use in homes that have electricity. At present it is estimated that 6,291,160 houses, about one-third of those in the United States, are wired for electricity. Here is the limitation on the sale of electric goods—but the market is constantly increasing as more and more houses are being wired. The sales of electrical merchandise during 1920 has been estimated at $2,000,000,000.[9]

Difficulties due to changing demand.—The estimation of the possible sale of many products is much more difficult than those mentioned in the preceding paragraphs for the reason that styles and habits change so from year to year, and that the demand for different articles depends to a large extent on the intensity and success of various selling campaigns.

Automobiles.—Take automobiles as an example. In 1900, who would have believed that we would have over nine million automobiles in use twenty years later? Who would have believed in 1899 when 3,700 cars were built, that in 1920 we would have an automobile for every twelve people? The average wholesale value of passenger automobiles was about $850 for 1919, while the average whole-

[9] "Sales management," v. 3, No. 3, Abstracted in Business Digest Service, Advertising and Sales Promotion Section, March 9, 1921.

sale value of business vehicles in this year was about $1,750, and of chassis $950.[10] It has been estimated that the American people have seven billion dollars invested in passenger cars and considerably over a billion more in commercial cars. The investment of over seven billion dollars in cars used largely for pleasure is an illuminating commentary on the prosperity of the American people. The tremendous growth of the automobile industry would not have been possible except for the very prosperous condition of the country. The number of cars in use would undoubtedly have been smaller except for the policy of the Ford Motor Co. in standardizing production and turning out a popular low-priced car that was within the reach of the man of moderate means. It is said that every family wants a car and that the only deterrent is the lack of money.

A few years ago it was estimated that the demand for cars would be fully met when 8,000,000 cars were in use. Later this figure was increased to 10,000,000. Recently some optimists have estimated that it will be possible to sell 12,000,000 cars. As soon as all possible users have cars the business of the manufacturers will be limited to replacing worn-out cars. If 10,000,000 cars are in use with an average life of five years, then the manufacturers can hope to sell an average of 2,000,000 cars per year. Published figures of production and registration, however, indicate that the average life of a car is

[10] Census figures. See also Reeves, Alfred, in *Journal of Commerce*, Jan. 5, 1920.

in excess of five years. This may be due to the large use of rebuilt cars.

It has been estimated that each car uses an average of five tires a year. Hence if 10,000,000 cars are in use there will be an annual demand for 50,000,000 tires. If $25 be taken as the average price this would mean an annual business of $1,250,000,000. The number of tires used tends to decrease not only with improvements in the tires, but with the improvement of the streets and roads of the country.

Determining demand by experiment.—The demand for many articles has really been created. In such cases it is impossible to anticipate the public favor with which an article will meet. When aluminum cooking vessels were first produced who could tell how they would be received by the public? The makers probably felt that they should be used in every kitchen, but the buyers would, perhaps, think otherwise. Long years of intensive selling activities have failed to attain this result. When the Eastman Kodak Co. first placed kodaks on the market it was problematical what sales could be expected. When a new product is proposed for which the demand is questionable a small quantity may be produced and tried out experimentally in a certain territory. If the buyers in this territory like the article its production may be increased. If they do not like it the product may be changed to better suit the consumers or its production discontinued. Hundreds of articles have been produced

which never proved popular. Losses would have been reduced in many instances if the articles had been tried out experimentally. Yet the stores are full of articles that found no demand until the consumers were educated up to their use.

Securing the estimated volume of sales.—Calculating the potential demand is one thing and securing sales equal to the estimated volume of sales is another thing. Take the cotton picking machine which we assumed to have been invented. The makers determine that there are 1,600,000 cotton growers who should have the machine. Unless there is such a saving in its use as to practically drive the non-users out of business, it will probably take many years to sell this number of machines. Some farmers have hilly land, some grow only a very few acres of cotton, others may hire a neighbor's machine, others may be unable to afford the machine, and others will refuse from pure stubbornness and desire not to do what their neighbors do. The makers may do well if they place 1,200,000 machines in use in five years.

The makers of electric washing machines, no doubt, feel that there should be a machine in every home that has electricity. This distribution may never be realized. Families that employ laundresses may be indifferent and poor families may be unable to afford such a machine. Manufacturers of talking machines, no doubt, believe that every family should have an instrument. Extensive advertising and selling campaigns have so far failed

to attain any such distribution. Shoe manufacturers perhaps feel that all adults should wear shoes and yet there are many countries where shoes are just beginning to be used and other countries where a large part of the population goes barefoot a part of the year.

Success in sales campaigns.—The success of any industry in stimulating sales depends upon its success in educating the people up to the use of its products through advertising and salesmanship and in placing its products within the reach of all possible buyers. The success of any individual concern in increasing its sales and getting ahead of its competitors depends upon the plan of distribution employed, the price policies used, and the advertising and selling methods followed. Some of these policies will be discussed briefly in the following chapters.

BIBLIOGRAPHY

Copeland, Melvin T.: "Marketing Problems," ch. 1.
Curtis Publishing Co.: "The Farm Market."
Duncan, C. S.: "Marketing," ch. 3.
Ivy, Paul W.: "Principles of Marketing," chs. 9 and 10.
Frederick, J. George: "Modern Salesmanagement," chs. 2, 3, 6 and 7.
J. Walter Thompson Co.: "Population and Its Distribution."
There are several sources from which specific information about different industries, and communities may be obtained. Many government reports contain very valuable information. The various publications of the Census Office give information on the population and on the agricultural, manufacturing and mining industries. The Internal Revenue Bureau publishes statistics on income based on the income tax returns. The Department of Agriculture publishes many publications bearing on

agricultural conditions, live stock, crop values, etc. The Bureau of Foreign and Domestic Commerce, of the Department of Commerce, publishes much information bearing on our foreign trade and on opportunities for the sale of American goods abroad. The Interstate Commerce Commission, Tariff Commission, Federal Trade Commission, and many other Government departments and bureaus publish information that may be very valuable in determining the markets for various products. Many States also publish figures showing the population, resources, and industries of their various counties and cities. For example the 16th Biennial Report of the Commission of Agriculture and Labor of North Dakota shows by counties the number of farms, acreage and yield of various crops, live stock, and live stock products, population, farm labor, manufacturing industries, etc.

Trade papers and trade associations often gather and publish statistical information and directories of the trades represented. The man in search of information about any particular trade or industry would do well to secure the names of the papers and associations representing the trade and ascertain what information they are able to furnish.

Directories: City, telephone, and trade often furnish helpful information.

Local chambers of commerce and boards of trade often are glad to furnish information about their communities. Real estate dealers and banks may also have such information for distribution. Railroads often can furnish information, at least of a general character, concerning the territories served.

CHAPTER XIX—QUESTIONS

1. Name some of the important factors that are helpful in determining the demand for different articles.
2. Name some of the sources from which information useful in making market analysis may be obtained.
3. Suppose a company is organized to produce an improved electric heater which will operate on a fuel cost only slightly above that of artificial gas. What sales may the company hope to develop? If the heater is still further improved to compete in operating cost with natural gas how much will the potential market be increased?

4. Suppose the heater in the above example has a factory cost of $7.00, what price would you recommend be charged the consumer? Why? What sales could be expected at $25? How much would a reduction to $15 increase sales? A reduction to $12?
5. It is proposed to open a store handling the better grade of furniture, rugs and draperies in a manufacturing town of 25,000 population. The town is located in a rich farming district and has a large trade with the farmers. At the present time the stores handle only medium and low-priced furniture, the people desiring a better grade of goods are forced to go to the larger cities for them. What facts should be ascertained before deciding to start such a store?
6. In recent years the sale of several calculating machines has been actively pushed by advertising and personal salesmanship. An inventor has what appears to be a better machine than any of those on the market. It is electrically operated. It is simpler than the present electrical machine and faster than the present hand machines. He has interested a group of capitalists in the proposition but before putting up the factory they want a careful analysis of the selling possibilities of the machine. How would you proceed to get the desired information?
7. A wagon factory located in a southern state had established a good reputation for its wagons. Its wagons were well liked by both farmers and lumbermen. Competition in this section was very keen. Due to the weight of a wagon, the high freight charges made it very hard for this concern to sell its wagons more than 150 or 200 miles from its plant. Its market was therefore limited. There appeared to be an opportunity for the profitable manufacture of buggies. A subsidiary company was organized to make buggies, the reputation of the wagon being counted upon to help introduce the buggies. The buggy factory was started about 1906. At this time automobiles were just coming into general use but as yet very few had been sold in this section. Within a very few years automobiles came into use in this section and in less than ten years they were so generally used that the demand for buggies had been seriously curtailed. Would a careful analysis of the market have prevented the organization of the buggy company?

Chapter XX

CHOOSING A METHOD OF DISTRIBUTION

Importance of choosing proper method.—After determining that a market exists for his product one of the first problems of the manufacturer is to choose the best method of reaching that market. This problem is so important that no manufacturing scheme should be launched without having the marketing method definitely planned. The problem is also important to established concerns. It has been previously pointed out that they often change their method of distribution due to the growth of their output and organization, due to an unsatisfactory volume of sales, or due to a change in trade conditions. The volume of sales may depend to a considerable extent on the method of distribution.

Factors affecting choice of method.—The method chosen depends upon the product, the market to be reached, style, the number of articles to be marketed, and the size of the seller's organization. The manufacturer of farm implements or automobiles, due to the large size of the machines, will likely secure branch houses or assembling plants and sell the retail dealers direct while the manufacturer of a grocers' specialty will likely secure brokers to sell his output. The manufacturer of steel billets or heavy machinery due to

the small number of buyers will likely sell the users direct. On the other hand the shoe manufacturer, due to the large number of users, will in all probability utilize the services of the retailers and perhaps also the services of the wholesalers. The manufacturer of high-grade ladies ready to wear clothing is almost forced to sell the retailers direct due to the rapidity of style changes. The manufacturer of cheap hosiery, however, can just as easily sell through jobbers. The full line manufacturer will be much more likely to sell the retailers direct than the specialty manufacturer. Finally, the large concern can better afford to choose a more direct selling method than the small concern for the reason that its sales are larger. A salesman for a nationally known and widely used product may be able to secure three times as many orders in a day from retail dealers as a salesman for a similar but unknown product. This may explain why the expense of the first salesman may be reasonable while that of the second may be prohibitive.

In order to determine the proper method in each case we should have the various methods in mind together with the advantages, disadvantages, and limitations of each. Such information should be helpful in determining the most desirable method under any given set of conditions.[1] The operations of the various middlemen have already been discussed. The purpose of this chapter is to examine the usefulness of the various middlemen from the standpoint of the

[1] The reader should review Chapter III, "Trade Channels," at this point, unless it is fresh in his mind.

manufacturer, or other producer, who has goods to sell.

Disposal of entire output to one buyer.—The sale of the entire output of the factory to one buyer is perhaps the easiest selling method. The buyer may be a jobber, a chain store, a mail order house, a department store, or another manufacturer. This method does away with the need of salesmen, sales managers, and advertising. Only one sales contract need be negotiated and the organization is free to devote its entire energy to problems of production. If the buyer is able to take the capacity output of the plant and the price is adequate this may be a very satisfactory selling method. It, however, has many disadvantages.

Disadvantages.—The price is likely to be such that the profit will be moderate unless the seller has a very efficient plant. The manufacturer is unknown to the ultimate consumer and hence derives no benefit from a high quality of product. There is a tendency for him to turn out a product that will barely meet the specifications of the buyer. As the goods do not bear the producer's brand he has no good will with the public. He has no sales organization, no salesmen and only one buyer. He is, therefore, absolutely dependent upon his one customer. The buyer is probably aware of his position and may take advantage of it to "squeeze" the manufacturer when the contract is renewed. He may demand a price concession or other conditions which will bear heavily upon the seller If the seller refuses and loses his customer he

finds himself with an unknown product and no selling organization. He very likely accepts the sellers terms and contents himself with a very small profit. The seller, however, may demand still further concessions at the next renewal. This may go on until the seller is ruined, sells out to the buyer, or until he faces squarely the problem of building up his own outlet.

It must not be supposed that all buyers will try to take an unfair advantage of the seller. Some are broad-minded enough to realize that no permanent advantage is realized by ruining the sellers and destroying their sources of supply. Again there may be many buyers capable of handling the seller's entire output. In this case the manufacturer may play one buyer against another and secure an attractive price. This might be true, for example, with a paper mill which could sell its entire output to any one of a number of large newspapers, or the manufacturer of automobile parts, who may have several prospective customers. What we want to point out here is that the manufacturer who has only one customer has a very insecure market and very little opportunity to build up any good will for his product.

Selling through a sales company.—Some concerns instead of marketing their product themselves organize a subsidiary sales company to handle the marketing end of the business. This arrangement leaves the producing company free for problems of production while the sales company can devote its entire attention to the problem of distribution. This method is

used most frequently with products that demand intensive selling efforts. The sales company, however, has to meet all the problems of marketing that would have been faced by the parent concern if it had marketed the product. No problems have been solved by the organization of the sales company, hence no attention need be given to it in this chapter.

Selling through sales agents.—Some manufacturers, as well as farmers' cooperative organizations, turn the marketing of their entire products over to a sales agent on a commission basis. Others appoint different agents in different territories. The manufacturer may place his brand on his goods so that he is in a position to get the credit for a high quality product. He is relieved from the necessity of maintaining a large sales organization, it only being necessary to exercise a general supervision over the activities of his agent or agents. The agent's remuneration depends upon his success in effecting sales so that he is likely to be active in his selling activities. The agents' commission is, however, generally small, which means that he cannot be expected to do very much real intensive work in selling. If the producer so desires he may stimulate his sales by advertising or by having his agent employ specialty salesmen to call on the retailers, the extra expense of course being borne by the seller. If the sales agent secures a satisfactory volume of sales the arrangement may prove very satisfactory and also very cheap.

Sales agents are very often used by small specialty manufacturers who are not large enough to afford an

expensive sales organization. Small textile mills and canners, as previously noted, often employ sales agents. Sales agents often help to finance the manufacturers. Sometimes they advance them money or endorse their notes and at other times they guarantee the payment of accounts. The limitations on the use of sales agents are that they may be unable to dispose of the manufacturer's output except at cut prices; and since they ordinarily sell in bulk they cannot be expected at any time to get more than the prevailing bulk price for the goods sold. It is of course possible, for a manufacturer to create a consumer demand for his product by advertising, and so receive a higher price and a steady demand for his product. In this case, however, he would probably feel that the sales agent was unnecessary. He would likely either handle his sales through his own organization or employ brokers at a lower rate of commission than paid the sales agent.

Selling through brokers.—There is in actual practice no clear distinction between the services performed by sales agents, brokers, and manufacturer's representatives. As a rule the broker has less authority, less interest in the producer, and receives a lower rate of commission than the sales agent. Brokers are thus employed by concerns that are in a better position to exercise general supervision over the marketing of their products than the concerns that employ sales agents. Or it may be that a concern merely does not care to give an agent so much power and yet is not in a position to maintain its own force of sales-

men. As pointed out in Chapter IV brokers are very common in certain trades, notably groceries, textiles, and bulky raw materials.

Suppose a mill is organized by local capital to produce standard grades of cotton cloth. None of the promoters are familiar with the textile markets. The superintendent employed is probably not an expert on marketing and besides has little time to devote to it. Such a mill is almost forced to employ a sales agent or dispose of its product through brokers.

A company organized to manufacture a grocery specialty will in all likelihood sell through brokers. This is the established method and besides the maintenance of a large selling organization would be expensive. At first such a concern probably also employs specialty salesmen to do missionary work among the retail grocers. Advertising may also be necessary. This makes the selling expenses very high at first, —brokers' commission, specialty salesmen's expenses, and advertising cost—but this is regarded as a necessary expense of breaking into the market. When the product is once established the brokers may be expected to keep the wholesalers stocked up while the number of specialty salesmen may be greatly reduced.

Concerns that maintain their own selling organizations may be glad to accept orders received through brokers and to allow them the customary commission. This is especially true when the market is dull and the sales light. At such times the manufacturer may utilize the broker to dispose of surplus stocks at low prices. The surplus may be sold unbranded at very low

prices while the price is maintained on the branded product to the regular trade. The regular customers may regard this as unethical but the manufacturer defends his action on the ground of necessity. Concerns that have their own salesmen calling on the wholesalers may employ brokers to give advice and to solicit "fill-in" orders between the salesmen's calls. Brokers may also be employed by manufacturers of special equipment where there are only a few possible buyers in a town. The manufacturer would find it difficult to always have a salesman on hand when a buyer was ready to place an order.

The advantages of the brokers are that they are in close touch with market conditions, that they perform their services for low rates of commission, and that they are in a position to give valuable advice on market conditions. There are, however, many disadvantages to the use of brokers. They cannot be expected to do intensive selling or to push the product of any one buyer unless they are granted exclusive rights, since they often represent several sellers. They generally deal in goods in bulk and cannot be expected to secure more than the prevailing price for such goods. In fact in order to dispose of his entire output the seller may have to authorize his broker to cut the price in order to effect sales.

SELLING TO WHOLESALERS VS. SELLING TO RETAILERS

Manufacturers of products that are handled by the retail stores may sell the retailers direct or may reach them through the wholesalers. The ability of

the producer to perform the jobbing function satisfactorily and economically will determine whether or not the retailer should be sold direct. The jobbing function consists of soliciting orders from the retailers, warehousing the goods in locations convenient to the retailers, supplying the retailers with small lots of goods as needed, and oftentimes selling the goods on credit. In deciding whether to sell the retailers direct or to sell to the wholesalers, the manufacturer should consider his ability to perform these services economically. Some manufacturers, in order to increase their sales rapidly, or who wish to carry their policies direct to the retailers, go direct even though the net price received after paying selling expenses is less than could be obtained from the wholesalers.

Soliciting orders.—The ability of the manufacturer to solicit orders directly from the retailers depends upon the size of his sales organization and the nature of his product. If his product is one that is generally used it will require a large number of salesmen to call on any large proportion of the retailers with any degree of regularity. Take a manufacturer of a staple food for example. There are approximately 400,000 retail dealers in the United States handling foodstuffs. If this manufacturer expects to cover only one-third of the country, he has over 125,000 prospective customers. In a city a salesman may "call" on two dozen retail grocers in a day although it is impossible to deliver anywhere near this many real sales talks. In sparsely settled rural districts a salesman can scarcely average more than four or five

calls a day. If 240 calls a month be taken as the average it will require 520 salesmen to make the rounds each month and 173 salesmen to make the rounds once every three months. The employment, training, and supervising of this number of salesmen is quite a problem. District sales offices may be necessary. In other lines such as shoes, hats, or clothing there are fewer retailers but a salesman can call on fewer dealers in a day. The salesman who must show samples can make fewer calls. From this it is plain that the concern that would sell any substantial part of the retail trade direct needs a large organization.

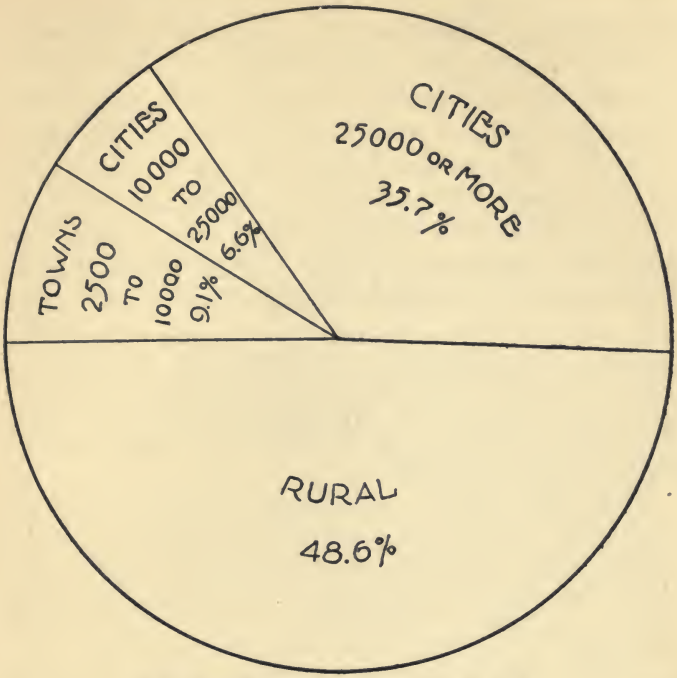
Hitting the high spots.—It is much easier to "hit the high spots." A concern may decide to work the retailers direct in the cities and larger towns and leave the scattered dealers in the suburbs, villages and rural districts to the jobbers. This may be very desirable from the manufacturer's viewpoint but the jobbers may object to such an arrangement and refuse to purchase his products. A very large number of concerns, however, do use both methods, or "straddle." If the manufacturer sells the retailers direct in certain territories while in other territories he sells only to the jobbers, the latter may feel that they are protected. If, however, the manufacturer uses both methods in the same territory the jobbers may well complain that the manufacturer takes the cream and leaves them only the skim milk. The manufacturer following this policy cannot expect much cooperation from the jobbers. A very large number of concerns

only work the better trade and pass by the out of the way dealers.

The concern with a product such as high grade shoes, clothing, jewelry, hats, or furniture, which is only handled by the better dealers in the towns and cities finds it easier to reach the retailers direct. There were, according to the 1920 census, only 2,788 places in the United States having populations of over 2,500 and 287 cities having populations of over 25,000; while there were in 1910 6,690 towns with populations between 500 and 2,500 and 6,673 incorporated villages of less than 500 population. In such lines as clothing, hats, and shoes the principal business of the wholesalers is with the small rural dealers and supplying "fill-in" orders to the larger dealers.

Warehousing and distribution.—The manufacturer of a bulky product, who tries to sell the retailers over a large part of the country, has a big warehousing problem. Small goods such as jewelry, cutlery, drugs, gloves, light hardware, etc., may be delivered quickly and cheaply by express or parcel post. But in order to supply the retailers promptly with more bulky goods stocks should be carried at convenient shipping points throughout the country. In order to reduce the transportation costs it is desirable to ship carloads to points near the retailers so that the less than carload freight rates will have to be paid only on short hauls. Jobbing centers have grown up largely as the result of favorable long-distance carload rates.

Branch houses.—The manufacturer who sells the



URBAN AND RURAL POPULATION IN 1920

retailers direct may secure his own branch houses, may rent space in public or private warehouses, or may employ others to act as his transfer agents and receive and ship goods on his orders. The meat packers have established their own branch houses. In 1918 the number of branch houses operated by the five largest packers were as follows. Armour & Company, 366; Swift & Company, 343; Morris & Company, 154; Wilson & Company, 117; and the Cud-

ahy Packing Company, 113. The National Biscuit Company has 320 local branches.[2] The use of branch houses is common with the farm implement manufacturers. Twenty-seven of the larger manufacturers had in the United States in 1918, 282 branch houses, 444 transfer stocks or agents and in addition sold to 140 jobbers. Sales organizations are generally maintained at the branch houses; while transfer stocks are simply stored at convenient points for delivery in less than car lots to the surrounding dealers. For example, a certain dealer may be appointed transfer agent. He receives the goods in car lots and on order of the manufacturer has them shipped to nearby retailers.

The manufacturer who doesn't want to tie up his capital in branches and incur the expense of maintaining branch organizations may arrange with warehouse companies or dealers to receive and store his goods and ship to the retailers on his order.

Pooled cars.—Pooled cars may be used to keep from carrying stocks scattered over the country and at the same time take advantage of carload freight rates. Arrangements are made with certain persons, perhaps transfer companies, at distributing points to act as agents. A number of small shipments are packed and addressed as if to be shipped direct to the purchasers but instead are loaded into a car and consigned to the agent at the distributing point. The agent breaks up the car and has the goods delivered

[2] Frederick, J. George: "Modern Salesmanagement," p. 87.

or the bills of lading issued to the various purchasers. This method saves on freight charges. It may, however, cause delay in many shipments due to the distance between retailers and factory or to orders being held until enough are accumulated to fill a car to a particular destination. It may also be impossible to ship certain orders in pooled cars so that the saving is not realized on all shipments. Goods from several manufacturers to one dealer are often shipped in one car.

Expense of warehousing services.—The manufacturer covering a large part of the country and selling the retailers direct may be able to supply the warehousing and quick delivery service but he can do so only by incurring additional expense. This expense may be greater or less than the similar expense incurred by an independent wholesaler. A great many manufacturers cover only a small part of the country, generally that part nearest their plants. In such cases the concern may be able to supply its customers satisfactorily from its factory. Very few concerns attempt national distribution when first started. If they grow they cover more and more territory until some come to have really national distribution.

Extension of credit.—Perhaps it is easier to extend credit to the retailers than to solicit orders from them and supply them with the goods as needed. This follows from the fact that the manufacturers selling the wholesalers often have to extend them a certain amount of credit. Nevertheless the extension of credit to a large number of small retailers involves

a great deal of work in gathering information, passing on applications, and collecting small accounts. It also means that credit must be extended or denied to many retailers on the meager information obtained by salesmen on their regular calls or contained in reports of the mercantile agencies. Many of the small retailers are not even listed in the directories. The maintenance of the larger credit departments and the larger risks assumed adds to the expense of selling the retailers direct. The small or the rapidly growing concern may need all the capital it can raise for other purposes and might have its resources very much strained by supplying credit to retailers. In most lines cash sales are not yet practicable although the use of trade acceptance provides the seller with securities that may be discounted at the banks.

Limitations on the use of wholesalers.—One of the chief objections of sales to the wholesaler is that many of them are not in a position to actively push the sale of any one product. A wholesaler may handle anywhere from 1 to 80,000 items. Those handling several thousand items cannot push the sale of each article. Many jobbers are not anxious to handle goods for which a consumer demand does not exist. The manufacturer who has sold his goods to a large number of jobbers may find it still necessary to do missionary work among the retailers or to carry on extensive advertising to create a demand among the consumers. The use of specialty salesmen to solicit orders from the retailers to be filled through the jobbers has been previously explained, (see chapter

VI). Other concerns maintain traveling forces whose functions are to call upon the retailers to secure their good will, supply them with advertising matter, help them with window displays and give them advice as to the handling of goods rather than to solicit orders.

Some concerns make a bid for the jobbers active support by allowing them a large margin of profit, perhaps 40 or 50 per cent of the cost of goods. The jobber may be sold at half the retail price to the consumer. This will allow the jobber to make 40 per cent and the retailer 43 per cent on their respective costs. Some concerns give the jobbers' salesmen special inducements to push the sale of their goods. This practice is coming to be recognized as an unfair practice and certainly should not be done without the knowledge and consent of the jobbers.

It may be asked why the jobbers are used if it is still necessary for the manufacturer to go over their head to stimulate sales. In the first place it is much cheaper for the manufacturer to have his representatives call on the retailers infrequently than to have his salesmen call on them regularly. In the second place the jobbers still perform the function of warehousing the goods and supplying them to the retailers as needed. In the third place the jobbers still extend credit to the retailers.

Disadvantages of selling to wholesalers.—Some disadvantages of selling to the jobbers are the following:

The manufacturer loses contact with the retail dealers unless he employs specialty salesmen.

The jobber may at any time discontinue any manufacturer's line to take over a competitive line or to put out his own branded goods.

The jobber may refuse to carry out the manufacturer's policies or to resell at the suggested resale prices.

Types of manufacturers who should sell to retailers.—It is very hard to generalize as to just what types of manufacturers should sell to the jobbers and what types should sell to retailers. As a general rule, however, it appears that the following types may satisfactorily sell to the retailers: manufacturers of a full line or a large family of products; manufacturers of products that have to be actively pushed in order to attain a satisfactory distribution; manufacturers of style goods that need to reach the retailers as quickly as possible; and manufacturers of large or valuable articles that are bought in large enough units to justify the salesmen's expenses. Bulky goods such as coal, hay, lumber, brick, corn, etc. should be shipped as directly as possible to the retailers to save transportation and handling costs.

Proctor and Gamble's change to the retailers.—The change in selling policy adopted by Proctor and Gamble in the summer of 1920 by which the jobbers were almost entirely eliminated in the sale of their product attracted considerable attention due to the widespread use of the firm's products. This firm's most widely distributed product is "Ivory" soap which is handled by between 250,000 and 300,000 retailers; "Crisco," a cooking fat, is also very widely used al-

though not nearly so well known as "Ivory" soap; and some less known products. The firm had been selling direct to the retailers in New York for sometime and on July 1, 1920, extended this policy to the whole country, although it is understood that several jobbers in the more sparsely settled sections still handle their goods. The jobbers were very much perturbed over the change but started to push other brands as soon as their Proctor and Gamble goods were disposed of.

Success of the P. & G. plan.—The success of the new plan was awaited with keen interest. Soap is not generally supposed to be an article adopted to direct selling and Proctor and Gamble's line is not a long one. After the plan had been in operation for six months information was gathered from the jobbers that indicated that they had been able to keep up their soap sales by pushing other brands. A short time later an official of Proctor & Gamble stated that the sale of "Ivory" soap has been well maintained although the sale of "Crisco" and the less important brands had fallen off somewhat. This falling off he attributed to the general business depression and not to the change in selling policy. He further stated that his concern was thoroughly satisfied with the changed selling method. There is such a strong consumer demand for "Ivory" soap that the retailers are practically forced to carry it regardless of where it must be purchased. In commenting on this point Haney remarks: "In my judgment something like 75 per cent of the retail grocery dealers would prefer to deal

with grocery jobbers, and this will always make a tendency to buy soap from jobbers rather than from any direct selling manufacturer."[3] The experience of Proctor & Gamble seems to demonstrate that a large company with a well-introduced product can successfully market it to the retailers even though the line is short and the average orders small. It does not appear what, if any, benefits the consumers will derive from such a change.[4]

Exclusive agencies.—Manufacturers selling the retailers direct should give careful consideration to the wisdom of distributing their goods through dealers who are granted the exclusive rights of handling their products in their respective territories. Manufacturers selling through wholesalers may also at times find it desirable to grant exclusive agencies. Exclusive agencies are more often used with shopping lines—clothing, shoes, household furnishings, farm implements, automobiles, machinery, boxed candy, etc., although they may occasionally be used in the sale of convenience lines. Such agencies secure greater cooperation from the dealers. The dealer who has an exclusive agency is likely to push the sale of the goods, to display them better and advertise them more than he would if he did not have the exclusive agency. The willingness to grant exclusive agencies may enable the manufacturer to induce the best dealers to handle his

[3] Haney, Lewis H., Director New York University Bureau of Research, writing in the *Journal of Commerce* of March 12, 1921.

[4] See discussion in *Journal of Commerce,* February 19, March 5, and March 12, 1921.

goods and to carry complete lines. The reason for granting exclusive agencies is the belief that more business can be secured from one good dealer in a town who pushes the sale of the goods than from several dealers none of whom have any special interest in the goods. The manufacturer selling to exclusive agencies needs fewer salesmen, spends less for bookkeeping, and assumes less credit risk than the manufacturer who tries to sell to all the retailers.

On the other hand exclusive agencies limit the number of dealers handling a product and so may limit sales. This is especially likely to be true if the agencies are poorly placed or if the dealers are given too much territory. Too much territory can easily be granted in large cities. In such cities it may be hard to find a single dealer, even if he has several stores, who satisfactorily covers the entire city. In such cases the manufacturer should consider the wisdom of giving the agency to different dealers located in different parts of the city. It is doubtful if it is good policy for a manufacturer of convenience goods to grant exclusive agencies (except perhaps to chain stores) unless it is impossible to otherwise induce dealers to handle the goods.

The dealer with an exclusive agency can take full advantage of the manufacturer's advertising. He can connect his own name with that of the manufacturer and get the advantage of both. The exclusive agency is valuable to the dealer if the goods are of high quality and have a good reputation. A hardship is often suffered by a dealer who has an agency taken

from him after he has spent time and energy building up a market for the goods. When the International Harvester Co. agreed with the Department of Justice to sell to only one dealer in a town it was faced with the necessity of withdrawing agencies from dealers in towns where it had formerly allowed different dealers to handle different brands. Many dealers felt that this was a great hardship.

It is legal for a seller to agree to sell to only one dealer in a given territory but it appears to be illegal under the Clayton Act for a dealer to agree with a seller to handle no other competing products. The object of this provision was to keep the market open for all sellers. Section 3 of this Act contains the following:—"It shall be unlawful for any person engaged in commerce . . . to lease or make a sale . . . of goods . . . or fix a price . . . or discount from, or rebate upon such price on condition . . . that the lessee or purchaser thereof shall not use or deal in the goods . . . of a competitor . . . where the effect of such lease, (or) sale . . . may be to substantially lessen competition. . . . "

SELLING DIRECT TO CONSUMERS

New products.—Most manufacturers of widely used merchandise prefer to dispose of their products through middlemen. Many of those that have gone direct to the consumers have done so because they failed to secure a satisfactory volume of sales through the middlemen. Manufacturers with new products

that require demonstration and intensive selling efforts are likely to go direct to the consumers for the reason that the dealers are unable to sell their products. Besides if the manufacturer has to sell the consumer what is the reason for allowing the dealer a profit on the article? Many such articles are sold through the dealers after they have been brought into general use . In this class might be mentioned sewing machines, electric and gasoline irons, typewriters, kitchen cabinets, aluminum cooking utensils, and dozens of other articles that are now regarded as standard merchandise. A similar class of products that is often sold direct consists of novelties or luxuries that people can do without and which many will buy only when urged to do so. In this class might be mentioned books, magazines, musical instruments, and enlarged portraits. The manufacturer of such products may find the public so indifferent to the value of his products that he is forced to keep sticking them under their noses either through printed advertisements, or so-called "agents." This follows from the fact that the demands upon the average man's purse are so great that he buys only those extras that are most strongly or frequently offered to him.

Goods unsuited to dealers.—Another class of products sold direct consists of goods that cannot be carried on the dealers' shelves. In this class come such widely different products as fruit trees, life insurance, and heavy machinery. The only way that a dealer can handle such products is to act as an agent in soliciting orders.

Unknown brands.—Many manufacturers whose products are adapted to dealer distribution sell direct to the consumers because the dealers cannot or will not secure a general distribution of their products. This may simply mean that other brands are now in general favor. The manufacturer of the less known brand instead of calling in a receiver may attempt to distribute his product himself. Direct mail order selling may be tried in the belief that prices can be lowered with a resultant increase in demand. In this class may come producers of everything from soap to woven wire fence, from shoes to buggies, and from pictures to cream separators.

Direct selling is more general in the rural districts than in the cities for the reason that stocks carried by the rural stores are much more limited than those carried by the various city stores.

Methods of selling consumers direct.—The three common methods of selling the consumer direct are by mail advertising; by the use of specialty salesmen or canvassers; and by the establishment of retail stores. The two latter methods involve the use of salesmen so that the human effort required in distributing the product may not be lessened. Perhaps the manufacturer's retail stores should not be regarded as direct selling as they duplicate the facilities of the independent or unit retail stores. The manufaturer in effect says to the retailers, "you do not carry out my policies," or "you do not push the sale of my product, therefore, I will establish my own stores." Some manufacturers establish one or two stores in

order to come into contact with the consumers, feel out the demand; and work out methods for the use of the dealers handling their goods. This, however, can scarcely be regarded as direct consumer selling.

Selling by mail has already been somewhat fully discussed in the chapter on Mail Order Houses (Chapter XII), and need not be discussed again at this point.

Selling through specialty salesmen.—The concern that sells the consumer through specialty salesmen, canvassers or "agents" has many problems in the hiring, training, and supervising of these salesmen as well as in the delivery of goods, and the making of collections. We are speaking now of products of relatively small value which are sold direct because of a lack of demand, and not of such products as heavy machinery or life insurance which are unsuited to sale through the dealers. It is difficult to secure the best type of salesmen. Those obtained are often inexperienced or are "just working" until something better turns up. Not that such salesmen cannot earn large commissions but those that do are very often picked up by other organizations that can offer them better pay, or easier work. The work is often hard and unpleasant because they are selling goods which most of the prospects do not want when the salesman calls. The reason for the "agent" coming into such disrepute is that so many unscrupulous salesmen have tried to browbeat the prospects into buying.

Securing a trained salesforce.—To keep a large force of salesmen recruited and trained in even the

rudiments of salesmanship; and to keep them contented and enthusiastic, which is so necessary for successful selling, necessitates a considerable organization to write letters and visit the men in the field. Some concerns advertise for salesmen and appoint all applicants as "agents." The concern that does this has little regard for its reputation for many such salesmen will misrepresent the firm's goods either through ignorance or deliberate falsehood. Some concerns make a habit of recruiting salesmen from college students who agree to work during the summer vacations. This may secure a high type of men but means that the concern has salesmen in the field only three months out of the year.

It is of course possible to secure a fairly permanent and fairly well-trained force of salesmen but it is no easy matter. The employing and training of these men, the supervising of them in the field, assigning them satisfactory territories, of adjusting their small complaints, and of writing them "pep" letters involves considerable expense. These men must sometimes be sold on credit. The goods generally have to be packed and shipped out in small lots, but no smaller than is necessary when the retailers are sold direct. In addition to all of this overhead expense the salesmen must be allowed fairly large commissions commonly from 25 to 75 per cent of the selling price. Perhaps the most common commissions are between 40 and 60 per cent of selling price (or 66 2-3 to 150 per cent of price to salesmen) although higher rates are by no means unknown. From these facts it is

apparent that selling the consumers through specialty salesmen is not a cheap selling method. It may be more expensive than selling through the jobbers and retailers. The use of specialty salesmen to go to consumers to introduce new products which are regularly handled by retail dealers involves many of the same problems but the expense is one for development or advertising and is not expected to be permanent.

CHAPTER XX—QUESTIONS

1. The Dominion Canning Co., packs a fancy grade of vegetables and fruits which have for years been sold under its own brands. Its goods are handled by a large number of the better class grocery stores through the eastern part of the United States. The goods sell to the consumers at fancy prices, which tends to curtail the demand for them. The company employs specialty salesmen who call upon the retailers once a year to solicit orders which are filled through the wholesale grocers. The concern also has brokers in all the larger cities who are paid commissions on all sales made in their territories. The wholesalers distribute and collect for the goods sold by the canners' salesmen and also forward additional orders from time to time. Information, however, indicates that the wholesalers make little attempt to sell these goods and really only forward the orders voluntarily given by the retailers. The brokers are used to dispose of any surplus product especially standard grade goods which are not pushed by the companies' salesmen.

   The company has a high cost of production due to its care in turning out a high grade and varied product. This high cost of production coupled with a high marketing expense has reduced the company's profits to a very unsatisfactory level. The company could pack lower grade products and sell through the brokers to the jobbers very largely under the latters' brands. Lower prices would be received but both production

and marketing expenses would be materially lowered. The company, however, has spent years in introducing its brands and building up a reputation for its product and feels that its brands are too valuable to be given up. What should be done?

2. How should the improved electric heater mentioned in the third and fourth questions to Chapter XIX be marketed?
3. A small company is organized to produce side windsnields for automobiles. It is believed by the organizers that this is somewhat superior to the windshields now on the market. What method of distribution should be adopted?
4. A young man has been importing jewelry and bric-a brac from Japan and selling to the smaller retailers. Many of the larger retailers have their own buyers in Japan. He has been very successful and has become familiar with the sources of the goods in Japan and the details of handling the shipments. His business has been prosperous and has grown until he finds himself unable to properly look after both the importing and selling of the goods. He can sell to wholesalers at a greatly reduced rate of profit or he can employ salesmen to sell to the retailers devoting most of his own time to importing the goods and only exercising a general supervision over the salesmen. What course should he pursue?
5. The Star Knitting Company produces a medium priced line of cotton hosiery. A limited amount of advertising has been done and the product sold to the wholesalers. The company now finds it necessary to make a change of policy if its sales are to be increased. It considers going direct to the retailers. Another suggestion is to continue to sell the wholesalers, but to occasionally send special representatives to the retailers to stimulate their interest in the company's product. What policy do you recommend?
6. A talking machine manufacturer finds the market crowded and competition keen. He considers selling direct to the consumers, abolishing all retail agencies, and soliciting orders by mail or by appointing a large number of specialty salesmen to call on the consumers. What factors should be considered before deciding to take this step? Which method of direct selling would produce the best results? If he solicits mail orders what classes of periodicals should he use for advertising? If he employs specialty salesmen what territory should he cover?

7. When an eastern city went dry a local brewery took up the manufacture of ice cream. Due to the excellent quality of the cream, the sales were reported to be almost double the former sales of beer. The beer had been sold to wholesalers in car lots. The owner was an old man, and, according to reports, he was unable to adjust himself to the new marketing methods and sold the plant. Outline the methods necessary in the sale of ice cream. How do these differ from the methods used by this concern in selling beer?

Chapter XXI

PRICE DETERMINING FACTORS

Importance of prices.—Prices are one of the most important things in business. Accuracy in forecasting price changes may mean success while mistakes may mean failure. Some concerns have attained success as a result of low prices and a large volume of business and others as a result of high prices and a sales appeal based on quality. A price too low may mean loss. A price too high may mean idle factories, crowded warehouses and—loss. Price and quality cannot be considered separately. A low price means nothing until quality is considered. The concern that says it doesn't care about price, that it doesn't sell its goods on price, that high prices get the buyers' minds on quality on which basis all sales should be made, may be able to get 10, 15, or even 25 per cent more than others for its product but let it try to get 100 or 200 per cent more and see how its sales will slump.

Changes in price levels.—It is well known that we have periods of rising prices and periods of falling prices. These are quite different things from the daily and weekly fluctuations in prices. These changes in price levels together with the accompanying changes in industrial activity have been called business cycles. During a period of rising prices everyone wants to

buy as the goods will be worth more when they are sold or consumed in the future than at the time purchased. Merchants and manufacturers are making money on their inventories and hence buy in advance of immediate needs. The consumer does the same to a lesser extent. The customer says "shoes are too high. I will make my old ones finish the winter", to which the retail salesperson replies. "they'll be higher, Sir, in the fall." Whereupon the customer buys one pair and perhaps two pairs. This freedom in buying means a strong demand and is one of the factors contributing to the advance of prices.

On the other hand nobody wants to buy when prices are falling. The merchants and manufacturers do not want to lose money on inventories and so buy from hand to mouth. The consumer makes his old shoes finish the winter. Demand is weak which tends to reduce prices. All holders of goods want to unload before prices go any lower. This large supply helps the downward movement. Both rising and falling prices are cumulative. Once started a price movement may go a long distance on its own momentum.

It is very important to all business concerns to anticipate changes in price movements. If prices are going up large purchases may be made to advantage. If prices are going to fall it is wise to buy lightly and push sales so that stocks will be light when the break comes. The correct forecasting of such changes is, however, very difficult. Wrong forecasts often result in losses. For this reason many successful business men have made it a rule to always buy conserva-

tively except at times when all underlying conditions point to price advances. Conservative buying prevents large losses when prices break.

Factors determining changes in price levels.—The two underlying factors that are credited with causing changes in price levels are first the supply of and demand for goods, and second the quantity of money in circulation. Neither of these factors can be discussed at length here. The law of supply and demand is explained in most books on the Principles of Economics and is a matter of daily discussion among business men and in business periodicals. It may, however, be well to say a few words about the quantity theory of money.

The quantity theory of money.—The quantity theory of money is much less understood and is still in the controversial state. The essence of the quantity theory, briefly stated, is that prices are the result of dividing the total of commercial transactions by the total amount of money available to perform these transactions. In the amount of money in circulation must be counted not only metallic and paper money but bank deposits as, in the United States, most bills are paid by checks. We must also consider the rapidity with which money circulates. Small coins in a busy retail section may change hands several times a day while money tucked away in tin cans and bedticks may change hands only a few times a year. The same is true of bank deposits. One man may issue checks every few days equal to his average deposits while another may take two or three months to withdraw

Chart 10

MOVEMENTS OF PRICES FROM 1890 TO 1921. INDEX NUMBERS OF WHOLESALE PRICES

his average balance. The theory may be expressed by the following formula. P represents price, or price

$$P = \frac{m\ r}{n}$$

level. N represents the number or amount of commercial transactions; or the volume of trade. M represents the amount of money available including checking deposits; and R represents the rapidity of circulation.

The advocates of the quantity theory claim that they can forecast changes in the price level by changes in the amount of "money" in circulation. The anti-quantity theorists deny this, saying that the amount of money is the result and not the cause of changes in price levels. If prices double other things being equal, then we need twice as much money to carry on business. Few economic theories have been discussed with any more interest during recent years. There is a great difference of opinion among both the economists and business men. The quantity theorists seem to be in the majority among the economists, at least judging by the noise they make. Judged by the same criterion, the anti-quantity theorists seem to be in the majority among the bankers and business men.

If true, the quantity theory is of fundamental importance to business men for the reason that by studying the changes in the amount of money they could forecast or predict changes in the price level or trend several weeks in advance. This information would be

of tremendous value to all persons engaged in buying and selling goods. If, on the other hand, the quantity of money in circulation is the result and not the cause of price changes it is of little practical value to buyers and sellers of goods.

Factors to be considered in fixing prices.—The official charged with the responsibility of fixing a concern's prices must consider not only the trend of prices but many other factors such as the cost of the goods, competitors' prices, the quality and reputation of the product, the customary price, and what "the traffic will bear," or what the consumers will pay without a serious falling off in demand.

Cost of goods.—Some people seem to think that all the sales manager has to do in naming prices is to ascertain the factory cost of the goods from the firm's accountant, add to this his selling expense and what is considered a fair profit, print his price lists and send his salesmen out to get the business. If it were as simple as this, business would be a snap, all would succeed and there would be no failures. Over a short period cost has very little to do with prices. The merchant who paid $10 for silk shirts and can get only $5 for them must sell them for $5. The farmer who has wheat that cost him $1 to raise will not sell it for $1.10 if the market price is $1.60. The relation of cost to price is this—that over a long period those producers whose costs of production are above the market price will be forced out of business. On the other hand if the price is considerably above the cost of production the large

profits will tend to increase output by drawing in new producers or by stimulating the output of those already in business. This increased output will increase competition until prices fall to the cost of production by the marginal producers. (The non-profit producers who are just managing to stay in business). Thus under a competitive system over a long period of time prices tend to equal the cost of production by the marginal producers. During the period of government price fixing in 1917 and 1918 prices were fixed on what was known as the bulk line principle. That is, prices were fixed high enough to allow the bulk of the output, say 70, 80, or 90 per cent, to be produced at a profit.

One of the most widespread fallacies is that prices are based on the average cost of production. As previously pointed out in Chapter XVIII, under a competitive system marginal and not average costs are the determining factor.

The price fixing official of a concern should, however, consider his costs in naming prices. If competition forces him to name a price below the cost of production his concern should examine its production methods to see if its cost can be reduced. If prices are below cost as a result of price wars he should consider the advisability of limiting the sales and concentrating on other products. At times it may be well to stop producing goods that can only be sold at a loss. At other times it may be well to take his losses and wait for better condi-

tions. It may be a case of the survival of the fittest.

Competitors' prices.—The sales manager must consider the prices charged by his competitors. Unless his goods are of a better quality or have a better reputation he can get little more than his competitors. Business men generally try to make their prices "in line" with prices of competing concerns. Some men have made a practice of naming their prices in this way. "If my competitor can sell at that price I can do the same." Since prices must be in line with the prices of others a cost accounting system is regarded as a useless luxury. This is a wrong attitude for the accounting system would at least warn of losses so that prices could be raised or production stopped.

What should be done when a fair profit can be made at prices below those of your competitors? Such a condition may arise from the fact that your concern has a lower cost of production than your competitors. Some argue that under such a condition the wise policy is to reduce prices and thereby increase the volume of sales and stock turnover and hence total profits. Others argue that this is unwise as your competitors will follow your example with the result that no one will gain any business and the profits of all will be reduced. Before deciding on the proper policy, the conditions in the industry and the probable increase in demand resulting from a lower price should be considered. It may be that a cut in price will so stimulate demand that all

concerns will have more business and more profits than before, or that some competitors will be eliminated. Some such concerns make it a policy to keep the price as low as is consistent with fair profits in order to stimulate demand. On the other hand if the demand is relatively inelastic a different price policy may be advisable.

Quality and reputation.—The market is full of similar articles that sell for different prices because they are of different qualities. The old established brands often sell for more while new or unknown brands may sell for less than the prevailing or common price. One of the reasons for branded products is to free the producers from the keen price competition existing on bulk products. The public will pay more for a package branded product than for the same product in bulk. Whether this is a mistake on the part of the public does not concern us here. What we are interested in at this point is the value of this to the manufacturer.

Many concerns say frankly that they want to sell on a basis of quality, that they do not care to compete on a price basis, and that they purposely place their prices slightly higher than others in order to get the buyers' minds on quality at once. To many buyers higher prices carry the idea of superior quality. Some people will choose the higher priced article for the simple reason that they think the higher price signifies a higher quality.

"Some years ago an investigation of the costs and selling prices on a piece of well known broadcloth

was made and disclosed these facts. The mill received $1.65 a yard for the goods delivered New York. A Fourteenth Street department store sold the goods for $1.85 a yard. A store then on Twenty-third Street sold the same cloth at $2; a Fifth Avenue store, then owned by the parties operating the Twenty-third Street store, sold the cloth at $2.50; while another Fifth Avenue store sold the cloth as "imported" for $3.50 a yard. Curiously enough at the time of the investigation, the store selling at the highest price was buying more of the goods than the other stores."[1] The old grocers who sold fifty cent and one dollar tea out of the same package were simply taking advantage of this tendency. Perhaps those buying the "dollar" tea got more satisfaction out of drinking it than if they had paid fifty cents for it. Who can tell? But a lot more people paid fifty cents than paid one dollar for their tea. All buyers will not pay an extra price to get a slightly better quality. Although price and quality cannot be separated, most people think a great deal about price. This means that all sellers cannot get the business of those who are willing to pay extra for extra quality. If too many try for it, competition may be exceptionally keen.

Quality may be based on quality of raw materials, skilled workmanship, experience in production, superiority of design, cleanliness in preparation, or of superiority of process. The superiority may be based on a patented or secret process. Reputation

[1] *Journal of Commerce*, January 28, 1921.

means that the people think a certain brand has a certain quality. As far as the seller is concerned these two are sometimes pretty near the same thing. The importance of a superior quality to the seller is that he can get more for his product than his competitors do for theirs or he can sell at the same price and make a larger number of sales. Take a manufacturer of farm implements, for example. He makes several implements. Some of them he sells at the same prices as his competitors. On a particular one, perhaps a swamp or road plow, he has, due to its design, a better implement than any of his competitors. He can make a much better profit on this than on his other implements. Perhaps he makes a profit of 10 per cent on most of his implements, but on this particular plow he is able to make a profit of 25 or 35 per cent.

Customary price.—The price that customers have become accustomed to must be taken into consideration in fixing the prices for many articles. This was more important before the war than now for the reason that war costs changed prices that had remained stationary for years. The five cent cigar, the five cent loaf of bread, and the five cent street car fare died hard. For a long time walking plows retailed at $1 per inch for the width of cut. Thus a plow turning a 12-inch furrow retailed for $12, while one cutting a 14-inch furrow sold for $14. The farmers objected to paying more and for a long time prices remained at this point, the manufacturers preferring to reduce their profits or the weight

of the plow in order to sell it so that it might reach the farmer at the customary price. The manufacturers of many other products often changed the size of the package in preference to changing the price. The following case was called to the author's attention a few months ago. The price of oranges was high, but the price of the small sizes was out of proportion to the price of the large sizes. The explanation given was that the retail stands could with difficulty get more than five cents for an orange. Consequently when the price of any particular size got so high that it could not be sold for five cents the retailers refused to buy. This caused a falling off in demand for the larger sizes and an increased demand for the smaller sizes. The result was that small oranges were retailing for five cents when very much larger oranges could be sold for six or seven cents. Still most buyers purchased those sold for five cents.

When a customary price exists the manufacturer should consider it in fixing his prices. It also is better to sell small convenience goods that are widely used on a basis permitting their resale to the customers at an even figure—5, 10, or 25 cents for example. The single coin makes it easy to buy. Odd prices, such as 19, 33 or 98 cents, gives the idea of cut prices, or bargains, and do attract a certain type of trade, but there are many places where an even price is preferable.

Ethical or fair prices.—There has come down through the ages a more or less vague conception

of a fair, honest, or just price. There are many who claim that prices are fixed by what competition will allow or what the traffic will bear and that ethical considerations have no influence with the sellers. Perhaps this is generally true, but there are many exceptions. There are many persons who fix their prices to yield a reasonable profit and refuse to take more even if market conditions would allow them to do so. Perhaps the best example of this is seen in the present rent situation. The author knows of similar houses similarly situated, the rent of which varies 50 to 75 per cent simply because certain owners have seen fit to ask more than the others. Those that have made moderate increases say that they are making fair returns on their investments and that they do not want to be "profiteers." The others are simply charging what the traffic will bear. The whole idea of "profiteering" was an unfair price—a price that yielded more than a reasonable return on the investment. The whole purpose back of decrying the "profiteers" was to force sellers to be content with reasonable profits.

Ethics, perhaps, plays a less important part than it should in the present fixing of prices and yet it must be admitted that ethical considerations do play some part in the determination of prices.

Charging what the traffic will bear.—All sellers must be careful not to place their prices so high that a serious falling off in sales results. It must be remembered that demand is just as important in determining prices as supply. The so called "buy-

ers' strike" during the winter of 1920-21 meant only that prices were higher than most consumers would pay. This meant that prices had to be reduced to levels at which the consumers would buy before sales could be made. The danger of prices fixed by monopolies or by agreements among competitors, is that such prices will be fixed so high that demand will be curtailed. After all is said, the greatest factor in curtailing demand for most goods is high prices and the greatest factor in stimulating demand for such goods is low prices. The cheaper a product is, barring certain exceptions (e.g., goods bought for their exclusiveness) the more people will buy and the higher it is the less they will buy. This applies to everything from potatoes[2] to automobiles.

Monopoly price.—A monopoly in fixing its prices has to consider all of the factors considered by other sellers except competition. If the monopoly controls the supply of a given commodity and is able to turn out enough of it to fill all possible demand, then it has to consider primarily the demand over which it has no control. Its cost of production fixes the lower limit of the possible price. The monopoly attempts to fix its prices at the highest point that the traffic will bear, that is at the point that will yield

[2] In the spring of 1920 white potatoes were very scarce and very high. In spite of the high prices a large jobber told the author that he was losing $1 on every barrel sold for the simple reason that the falling off in demand had forced the prices below what he had paid for his stock. If the demand for such a staple as potatoes is so affected by a change in price it is easy to understand the effect of price on the demand for luxuries.

the largest net profit. If the demand for the product varies widely with price the monopoly may fix a low price to secure a large volume of sales. If, on the other hand, the demand is fairly inelastic and little affected by changes in price, the probability is that the price will be relatively high.

This principle may be illustrated statistically. Let us suppose that a monopoly has a certain overhead expense for interest, depreciation, taxes, and maintenance of property; for the salaries of superintendents and managers; and for general office expenses. Then there is a certain direct charge for raw materials and factory, or direct, labor that varies in proportion to the number of units produced. If the demand for the product at different prices be known the net profits realized at each price can be computed. Suppose that the fixed overhead expense is $1,000,000 a year, that the direct charge for raw materials and labor is 30 cents for each unit of output, and that the demand varies as shown in the following table:

Selling Price Per Unit	*Demand in Units*	*Net Sales*	*Total Variable Expense*	*Fixed Expense*	*Total Cost*	*Net Profit*
$1.00	1,000,000	$1,000,000	$300,000	$1,000,000	$1,300,000	*$300,000
.80	2,000,000	1,600,000	600,000	1,000,000	1,600,000	.....
.75	3,000,000	2,250,000	900,000	1,000,000	1,900,000	350,000
.60	4,000,000	2,400,000	1,200,000	1,000,000	2,200,000	200,000
.50	5,000,000	2,500,000	1,500,000	1,000,000	2,500,000	.....
.40	6,000,000	2,400,000	1,800,000	1,000,000	2,800,000	*400,000

* Loss.

The first column shows the selling price, the second column the number of units that can be sold at this

price, the third column the net sales in dollars, the fourth column the total variable charge at 30 cents per unit, the fifth column the fixed overhead expense, the sixth column the total cost and the seventh column the total net profit.

It is evident that the price will be fixed at 75 cents as the largest net profit is realized at this price. In actual practice few cases could be found so simple. The overhead charges are not absolutely fixed regardless of output. We have, however, chosen a simple example to illustrate the idea we are trying to make, viz., that demand really fixes the monopoly price. The reader can add other factors and make the problem as complicated as he desires. The demand can, of course, be ascertained only by actual trial. It is so influenced by other things than price—changes in general prosperity, etc.—that no monopoly can ever be absolutely certain that it has its prices fixed at the most profitable point. A monopoly price may be a low price—at times lower than the price would be under competition—but as a rule it is safe to say that monopoly prices are generally somewhat higher than they would be if competition were keen.

Monopoly price may be based on average cost.—A monopoly, if it so desires, can base its prices on its average costs letting the profits in some plants offset the losses in others. The monopoly is looking at total net profits. This can not be done under competition for the reason that the low cost producer is not willing to turn his profits over to his high

cost competitor. The tendency, however, is for the monopoly to close the high cost plants and concentrate production in the more efficient plants. This tends to lower the average cost of production. It must not be assumed from this that a monopoly can always produce goods more cheaply than can be done by several competitors. This may or may not be true. A monopoly making nice profits may be satisfied to let things go along as they are. One of the greatest incentives to introduce economies, to devise new methods, or to install new processes is the threat of loss or ruin.

What constitutes monopoly —Just what percentage of production is necessary to constitute monopoly has never been satisfactorily determined. If court decisions be followed we may conclude that a concern must control somewhere between 60 and 90 per cent of the total production to be so classed. Outside of patented and secret process articles, and a few raw materials such as nickel and aluminum, there are, according to this definition, few monopolies in the country. Yet it must be admitted that the extreme competitive conditions upon which much of our economic theory is based now exists in relatively few manufacturing industries. It has been modified by the growth of large industrial corporations, by trade associations, by open price associations, by gentlemen's agreements, by the fear of starting price wars, by interlocking directorates, by communities of interest, and by mutual understandings. The importance of large companies in fixing

prices has been previously commented upon. In the canned salmon industry, for example, two companies which together pack less than 30 per cent of the total output, name the prices at which about 90 per cent of the pack is sold.[3]

[3] See Federal Trade Commission: "Report on Canned Foods, Canned Salmon," pp. 49 and 74.

BIBLIOGRAPHY

Fisher, Irving: "Why the Dollar is Shrinking"; "The Purchasing Power of Money"; "Stabilizing the Dollar."

Mitchell, Wesley C.: "Business Cycles"; "Gold, Prices and Wages Under the Greenback Standard."

"Annals of the American Academy of Political and Social Science," Volume 89.

Laughran, J. Laurence: "Money and Prices."

Kemmerer, Edwin Walter: "Money and Credit Instruments in Their Relation to General Prices."

Carman, Edwin: "Money: Its Connection with Rising and Falling Prices."

Burton, Theo. E.: "A Century of Prices."

Layton, W. T.: "An Introduction to the Study of Prices."

Wallace, Henry A.: "Agricultural Prices."

Ely, Richard T.: "Outlines of Economics," Chapters 10, 11 and 12.

Seager, Henry Rogers: "Principles of Economics," Chapters 7, 17, 18, and 19.

Taussig, F. W.: "Price Fixing as seen by a Price Fixer," *Quar. Journal of Economics,* February, 1919.

Simpson, Kemper: "Price Fixing and the Theory of Profit," *Quarterly Journal of Economics,* November, 1919.

U. S. Bureau of Labor Statistics has many publications on prices, index numbers, and the cost of living.

U. S. Department of Commerce: "Series on History of Prices During the War."

Sauerbeck, Augustus: "The Course of Average Prices of General Commodities in England."

Many trade papers publish current price quotations. Among the periodicals that might be of more general use in this connection

might be mentioned: *The New York Times Annalist, The Statist,* the *London Economist,* the *Journal of Commerce, Bradstreet's and Dun's Review.*

CHAPTER XXI—QUESTIONS

1. What is the quantity theory of money?
2. What factors must a sales manager consider in naming his selling prices?
3. How do monopolies fix their prices? What is the difference between the methods followed by monopolies and competitive concerns?
4. If a monopoly had a fixed expense of $500,000 and a variable expense of $1 per unit of output, what would be its selling price if the demand be assumed to be as follows: price $4 demand for 400,000 units, price $3, demand for 600,000 units; price $2.50, demand for 900,000 units; price $2, demand for 1,200,000 units; and price $1.50, demand for 1,800,000 units?
5. The Jno. Doe Co., manufactures tooth paste which it believes to be superior to most pastes on the market. The company is undecided whether to have the paste sold at 25 cents and advertise better quality for same price or to have it priced at 30 or 35 cents and sold on a quality basis. Which policy should be followed? Would your answer be the same if this concern made flour? Automobile tires?
6. The Mason Company manufactures a high grade of men's clothing, which is sold through retail stores which as a rule handle no other brand of high grade clothing. Most of these stores, however, handle medium priced and cheap clothes made by others. The Mason Company, although small, has a very profitable trade. The Company is considering putting out a cheaper product under its brand. It is believed that most of the retailers would handle the cheaper goods and that they could be easily sold on the reputation of the high grade clothing. The company anticipates no serious difficulties in expanding its plant and turning out the cheaper product but fears that the cheaper product will injure the reputation and sale of its high grade goods? What policy should be followed?
7. The Sweet Confectionery Company manufactures chocolate bars and similar candies ordinarily sold at cigar counters, fruit stands, and drug stores. Before the war the bars and similar products were uniformly retailed at 5 and 10 cents and the box

candies at 25 and 50 cents. During the war it was necessary to increase prices several times. The buyers objected to these increases and a falling off in sales could be noticed after each advance. The sales, however, picked up as soon as the consumers became accustomed to the new prices. In the autumn of 1920 the sales decreased as the result of the so-called "buyers' strike." Prices were reduced but due to the wave of economy sales continued below normal. Early in 1921 it was found that costs had decreased to such an extent that by selling on a very close margin of profit prewar prices of 5, 10, 25, and 50 cents could be restored. Would it be advisable to do this in the hope of stimulating sales?

Chapter XXII

PRICE POLICIES

The success attained in the sale of any product depends to a very large extent upon the price policies followed. It is the purpose of this chapter to discuss briefly some of the more important policies.

UNIFORM PRICES

Prices uniform as to territory.—Goods are sometimes sold f. o. b. factory, in which case the delivered cost varies to buyers in different parts of the country. Certain sellers on the other hand absorb the freight charges and deliver to all buyers, regardless of location, at the same price. A middle course is to divide the country into zones and deliver the goods for different prices in the different zones. Under this system the prices are uniform in each zone. The country may be divided into few or many zones. A division of the country into four zones might be as follows: First zone, the East and Upper South; second zone, the Lower South and the West from the Mississippi River to the Rocky Mountains; third zone, the Pacific Coast Section; fourth zone, the Rocky Mountain and Great Basin district.

Uniform prices in different parts of the country

appear to be illogical as they force the consumers living near the center of production to help pay the freight on the goods consumed by those located at a distance. On the other hand it may be argued that to charge the people living in the more remote districts more for their goods is to penalize them for their location. Much the same argument can be made for uniform territorial prices as for uniform postal rates or flat rates on our city street cars.

Uniform prices the result of competition.—This practice of selling the dealer in Kansas for the same price as the dealer in New York appears to be the result of competition. Suppose that competing factories making the same product were located in Philadelphia and St. Louis. The Philadelphia manufacturer has lower freight rates to dealers located in the East and probably gets the most of their business. He, however, desires to expand and sends his salesmen to the Middle West. The dealers there reply that it is cheaper for them to buy from the St. Louis manufacturer. In order to get business it is necessary for the Philadelphia concern to deliver its goods as cheaply as they can be obtained from St. Louis. This being done the eastern concern is in a position to compete for business with its western competitor. The St. Louis Company, however, doesn't sit idly by and see its trade lost. It probably reciprocates by invading the eastern territory. As a result these two concerns may soon come to pay the freight on their goods to all parts of the United States.

Advantages of uniform territorial prices.—The seller who sells at the same price over a wide territory places all buyers on the same basis. No buyer can complain of discrimination. This practice makes it easier to sell in the districts at a distance from the factory. It makes it easier for the buyers to compare prices of different sellers. It makes easy the quotation of prices. It makes it easier for the dealers to maintain uniform prices to the consumers.

Difficulty of maintaining uniform prices in all territories.—It is very difficult for most concerns to maintain uniform prices in all territories, because of the varying strength of competition. Some manufacturers vary their prices somewhat in different territories due to competition being keener in some sections than in others. Take farm wagons as an example. They are made largely of wood and their manufacture is very largely the work of carpenters. No expensive machinery is necessary for their production. There has, however, been a tendency for the local blacksmiths and wagon makers to be replaced by the large wagon factories. Nevertheless, many small wagon factories are still in existence. This is especially true in the Upper South where the factories can draw on local supplies of hardwood lumber and where wages are relatively low. Due to the bulk, freight is quite an item in the cost of wagons to the local dealers. This gives the local factories an advantage over those located at a distance. The manufacturer located in northern Indi-

ana or Illinois may find that he must either stay out of many parts of the South or else sell at lower prices than he receives in the West. He may feel that his wagon is superior to those made by the local factories but the farmers living near these factories like the local products and believe the local wagons to be equal to those built anywhere. It is therefore necessary for the northern manufacturer to stay out of this territory or to sell at prices practically as low as those charged by the local concerns.

Similar conditions are faced by producers in many industries. Relatively few companies have selling organizations that cover all parts of the country thoroughly. This often means that competition is much keener near the producing centers than in other sections. Buyers often prefer to buy from local concerns due to the ability to get quicker deliveries which enables them to carry smaller stocks than would be possible if goods were obtained at a distance. Local competition therefore often makes it very hard for sellers to maintain uniform prices in all parts of the country.

Prices uniform as to buyers. — Some concerns have but one price which applies to all buyers. Other concerns have no uniform prices, the price for each sale being subject to negotiation. The latter was formerly a common practice with retailers and is frequently used at present. The one price policy is, however, now in very general use among retailers. This policy places all buyers on the same basis, inspires confidence as the buyers are not afraid that

someone else will get a lower price, and saves the time wasted in higgling.

In the sale of goods to dealers the problem is not so simple. The wholesaler wants to buy cheaper than the retailer. The large dealer thinks he should be given a better price than the small dealer. The small dealer on the other hand thinks it unfair to sell to his large competitor at a lower price than he is compelled to pay. No plan will satisfy all buyers.

Price based on position in trade.—Some concerns have adopted the plan of letting the status of the buyer—wholesaler, or retailer—determine the price. Under this plan one price applies to all wholesalers (or to all retailers) regardless of the quantity purchased. Thus a concern may adopt the policy of selling only to the wholesalers (or to the retailers) and of selling to all of them at the same price. The advantage of this policy is that it allows all dealers to compete on an equal basis. The manufacturer, however, must decide whether he is going to sell to semi-jobbers, cooperative jobbing houses, and chain stores. Such concerns commonly claim a wholesale status and are accorded this status by many sellers. Then the department stores and many factories insist on buying direct. If the seller refuses to sell to these buyers he may seriously curtail his business. On the other hand if he sells them at the wholesale price the wholesalers will likely complain of unfair treatment. As a solution some manufacturers have adopted a semi-jobbing price which is between the price to the wholesaler and the latter's price to re-

tailers. A great many manufacturers sell to both wholesalers and retailers. In this case a manufacturer may have three distinct prices—one to the jobbers, one to the semi-jobbers, and one to the retailers Some manufacturers adhere rigidly to these prices in spite of the fact that the large retailers often buy in larger lots than the small jobbers. There is, however, the insistence of the large retailers that they be given a jobbing, or at least a semi-jobbing status, and of the manufacturers, chain stores, and semi-jobbers that they be given a full jobbing status. The semi-jobbing price is an irregular price. It gives the recipient an advantage over his retail competitors in selling to the consumers and places him at a disadvantage as compared with other wholesalers in selling to the retailers. Concerns selling to the retailers may receive objections to the semi-jobbing price unless the semi-jobbers do a substantial wholesale business and observe the customary retail prices in their retail departments.

DISCOUNTS

Prices based on quantity purchased.—In order to avoid all of these difficulties some manufacturers let quantity alone determine the price, regardless of the buyer's position in the trade. The quantity discount may be based on the size of separate orders or on the total purchases during a stated period, for example, one year. The first method is the simpler. Under this method the following discounts might be announced:

Orders for less than 10 cases	net prices
Orders for 10 to 24 cases	2% discount
Orders for 25 to 49 cases	5% discount
Orders for 50 to 99 cases	7.5% discount
Orders for 100 cases or over	10% discount

Lower prices on large purchases are justified due to the lower expense of soliciting orders, packing and shipping goods, sending out bills, making collections, etc. This system of making prices also saves the seller from the necessity of classifying buyers. Buyers complain that they are wrongly classed and hence unfairly treated. This policy, however, tends to eliminate the small dealers and to concentrate business in the hands of large retailers. The manufacturers may of course sell to the retailers and wholesalers at different prices and yet give the large buyers of each class quantity discounts. Thus the large retailer would get a better price than the small retailer but a higher price than the small wholesaler.

Other forms of discounts.—Some manufacturers give special discounts to dealers stocking their entire line, or to dealers giving their goods special display or advertising. Some producers in order to keep up sales allow special discounts for orders placed during slack periods. To secure large orders some concerns pay the freight on car load orders while buyers of less than car lots must pay the freight. Some concerns date the bills forward by the approximate time required for the buyers to receive the goods. This is done so that

buyers in all part of the country will have an equal time to pay for their goods, and so receive the same credit terms.

Cash discounts.—It is a very common practice to allow a special or cash discount for the prompt payment of bills. The common rate varies in different trades. In the grocery trade it is often 2 per cent for payment within 10 days, while in the farm implement trade the discount is now generally 5 per cent for payment prior to certain dates in the spring and fall, or within 90 days of date of sale. In this latter trade cash discounts of 10 per cent were not uncommon a few years ago.

Objections to cash discounts.—A great deal of discussion has taken place in the last few years concerning the justification of cash discounts. The discounts are much in excess of ordinary interest rates. For example, 2 per cent for 20 days (2% for payment in 10 days, net 30 days) is equal to 36 per cent per year. Many persons have taken the attitude that no such discounts are justifiable and that cash discounts should either be discounted or reduced in amount. Many buyers also take advantage of the cash discount terms. If the terms are 2 per cent for ten days the buyers often take the discount long after it is past due. For example, a buyer may remit at the end of 20 or 30 days and deduct the discount as if the bill were paid within ten days. The seller for fear of losing the business of the buyer often accepts the check with the discount deducted and says nothing. Other buyers allow cer-

tain invoices to go past the discount date but pay later invoices promptly deducting the discount. They thus use the sellers money (due on the old bills) to take the discounts on the later bills.

Arguments in favor of cash discounts.—There is no doubt that the cash discount system has been abused. Some sellers justify the granting of cash discount not on the basis that it is a fair payment for the use of money but on the basis that it imposes a penalty on the slow payers. The cash discount, they say, is in effect added to the net price and so is not paid by those who pay their bills promptly but acts as a penalty for those who are slow in their payments and the collection of whose accounts perhaps involves extra expense. The buyers generally object to the discontinuance of the cash discount system. Some of them claim that the larger part of their profits is derived from cash discounts. The exclusive farm implement dealers, for example, had average net trading profits, excluding cash discounts, of 2.5 per cent, in 1915, while their 'other income' made up very largely of cash discounts on purchases averaged 3.8 per cent in the same year.[1] The buyers fear that an abolition of cash discounts would not be accompanied by a corresponding reduction in prices.

The system of cash discounts is so firmly established that its abolition would be extremely difficult. That the system has been abused cannot be denied.

[1] Federal Trade Commission: "Causes of High Prices of Farm Implements," pp. 266 and 268.

The trade acceptances which are used by some sellers allow cash discounts to be granted but prevent the buyer taking the discount after the discount date has been passed. Sellers in the formulation of their price policies should give careful consideration to the cash discount policy to be followed.

Legality of price discrimination.—The feeling that all buyers of the same class should receive the same prices has been developing for several years. As a result of the demand for equal treatment the Clayton Anti-Trust Act, passed in 1914, contained the following provision: "That it shall be unlawful for any person engaged in commerce, in the course of such commerce, either directly or indirectly, to discriminate in price between different purchasers of commodities, . . . where the effect of such discrimination may be to substantially lessen competition or tend to create a monopoly in any line of commerce, *Provided* that nothing herein contained shall prevent discrimination in price between purchasers of commodities on account of differences in the grade, quality, or quantity, of commodities sold, or that makes only due allowances for difference in the cost of selling or transportation, or discrimination in price in the same or different communities made in good faith to meet competition: *and provided further* that nothing herein contained shall prevent persons from selecting their own customers in bona fide transactions and not in restraint of trade."

This law specifically allows quantity discounts. It also allows a seller to vary his prices in different ter-

ritories to meet competition. To convict a seller for price discriminations it must be shown that the effect of such discriminations may be to substantially lessen competition.

List prices.—Many concerns publish so called list prices from which trade discounts are allowed the buyers. The use of list prices has several advantages. Some concerns print the list prices in their catalogs, the net price being obtained from supplementary discount sheets. When it is desired to change prices it is only necessary to issue new discount sheets. Since the same discount may apply on a large number of articles this may be a very simple matter. Another advantage of this method is that when the dealer shows the customer the catalog for the selection of an article not in stock, the customer does not see the net price. If the discount is high enough to enable the dealer to sell below the list price the buyer may feel that the dealer is giving him favored treatment.

Different discounts can be allowed different classes of buyers without issuing separate prices by simply giving them different discount rates. Some manufacturers use list prices to suggest resale prices to the dealers. This may be an easy way to suggest prices to the dealers that will yield them fair profits.

A disadvantage of list prices is that arithmetical calculations are necessary to obtain the net prices. The actual cost is not always apparent to the buyers who find it more or less difficult to compare the prices of different sellers.

TERMS OF SALE

Freight.—Many goods are sold f. o. b. factory. In case the seller wants to pay the freight he may quote a delivered price. Many sellers, however, quote a price f. o. b. factory less a freight allowance of.....per 100 pounds. There are two advantages from the seller's standpoint, to such quotations. First, it relieves the seller of responsibility in case the goods are lost or damaged in transit. Second, the seller is protected in case of an advance in freight rates. A quotation f. o. b. destination places the liability of loss or damage in transit on the seller. He must then make the claims against the transportation company.[2]

S. A. P.—Sales made subject to approval of price when named by the seller, are really options under which the buyers may later purchase stated quantities of goods if the price is satisfactory. Such s. a. p. "sales" are more or less common in the sale of canned foods. The future sales being made in the spring and the opening prices being named later in the season when the canners can more accurately approximate their costs of production. The canners say that it is necessary to make future contracts for the reason that the banks are unwilling to advance money for the season's operations unless they can show that they have contracts for the sale of a large

[2] For a list of quotations used in foreign trade see pamphlet published by the National Foreign Trade Council giving definitions adopted by a conference of nine commercial associations held on December 16, 1919.

part of their packs. The buyers sometimes object to this method of naming prices claiming that it allows the sellers to name high prices which the buyers practically have to accept since few canners will sell below the opening prices.

F. O. P.—Sales made firm at the opening prices have been used by some of the California cooperative associations. Under this form of contract the buyer agrees to take the goods at the opening price to be named later by the seller. Due to war conditions the sellers were able to effect sales on this basis. Contracts containing such terms are clearly one sided and their legality has been questioned. These contracts have come into disrepute and will likely be little used in the future.

GUARANTEE AGAINST PRICE DECLINES

In order to stimulate sales in dull seasons, or in periods of falling prices, some sellers have adopted the policy of guaranteeing the buyers against declines in prices. Buyers are often afraid to buy when prices are falling for fear of losing money on the goods before they are resold. The seller by assuming this risk himself may be able to greatly stimulate his sales. The guarantee may be against a decline in the seller's own prices or against a decline in the quoted market prices. In the former case the seller is under no obligation to give a rebate to the buyer unless he reduces his own price, no matter how much the general market price drops. The guarantee

may be made for a definite period as 90 days or it may be until a definite date, as May 1, for early spring sales. The guarantee may apply to the total amount of goods purchased or only to the amount still on hand when the price is reduced. The former policy may be used in sales to consumers and the latter in sales to dealers. The vegetable canners have very commonly guaranteed buyers on future contracts against decline in their own prices. This has been done to prevent buyers of "futures" being placed at a disadvantage as compared with buyers of "spots." The tinned milk producers have used this method for years to stimulate business during dull seasons. The guarantee against decline was frequently used by sellers during the winter of 1920-21 to stimulate sales.

Arguments for and against guaranteeing prices against decline. — Objections have been raised to guaranteeing prices against decline. It is argued that such guarantees tend to prevent or retard declines in prices and hence are opposed to the interest of the consumers. This is said to be true for the reason that sellers having guaranteed their prices against decline do all in their power to prevent declines in order to avoid giving rebates. It is also argued that it is the function and duty of the middlemen to assume the risk of price declines and that it is unfair to force the manufacturers to assume this risk. If it is the duty of the manufacturers to assume the risk of price fluctuations they should assume the risk of advances as well as declines. That

is, they should consign their goods and not sell them outright.

The principal argument in favor of guaranteeing prices against decline is that such guarantees are a practical method of stimulating business when the buyers are holding off in fear of reductions in prices. Such guarantees may enable the manufacturer to maintain his volume of sales and keep his plant running. They tend to equalize business throughout the year and prevent dull periods. In industries where future sales are desirable such guarantees may enable the buyer to contract for the future delivery of goods without assuming too great a risk. Without such guarantees buyers might very often be unwilling to purchase goods for future delivery.

RESALE PRICE MAINTENANCE

By resale price maintenance is meant that the seller fixes the price at which the buyer shall resell his goods. Resale price maintenance generally means that the manufacturer fixes the price at which the retailer sells his goods to the consumers (and also the price at which the wholesalers sell to the retailers in case the goods are handled by the wholesalers).

The question at once arises as to why the manufacturer wants to fix the resale price of his goods. What interest has he in the goods after they leave his hands? What does he care if the dealer gives them away or burns them up so long as he has his money? The manufacturer does not want the dealers to place too high a price upon his goods as this

would tend to limit the demand for them. Some manufacturers label their goods with the retail prices partly to protect the consumers from overcharges by the dealers. Peculiarly enough, however, the manufacturers in nearly all cases complain of the dealers cutting the prices on their goods or selling them too cheaply and not of the public being overcharged. This fact leads many people to believe that retail prices set by the manufacturers are inimical to the interests of the consumers.

Development of demand for maintained prices.—The need for resale price maintenance, according to its advocates, has developed from the following facts. Until the closing years of the last century most goods were sold unbranded and in bulk. With the rapid development of manufacturing in the years following the civil war competition between producers became very keen. As goods were unbranded and sold largely on a price basis competition in prices resulted. In the attempt to get business, manufacturers were forced to lower the quality of their goods. Under such a system there was no incentive to maintain quality as the producer was unknown to the ultimate consumers. In fact the manufacturer who did maintain quality was likely to be ruined. This deterioration in the quality of manufactured goods became very noticeable and the expression "things aren't as good as they used to be" was very common. To escape from this situation many manufacturers started branding their goods and then telling the public through advertise-

ments that the brands stood for certain qualities. When the consumers found that goods bearing a certain brand always had the same quality, they decreased their purchases of bulk goods, which were of uncertain quality, and started to buying the branded goods, which were of uniform quality and dependable. The manufacturers of well known brands were thus freed from the keen price competition and enabled to maintain the quality of the goods and at the same time realize fair profits.

Then came the cut price stores. A cut price on an unbranded article meant little to the consumers as they had no assurance of its quality. The cut price stores therefore advertised very low prices on well known branded goods. Such goods were often sold below cost in order to draw people to their stores. The public seeing a certain article sold by one store for a certain price felt that this price was all that the article was worth and believed that the dealers with higher prices were overcharging them. They refused to buy this article from such dealers. These dealers in turn refused to buy the article from the manufacturer. The manufacturer found his sales limited to the cut price stores and even these stores could discontinue his line if it lost its drawing power. The manufacturer found his sales limited and his advertising campaign wasted. The manufacturers therefore attempted to prevent any dealers from selling their goods for any less than the prices fixed by themselves.

Rebuttal by opponents.—The opponents of re-

sale price maintenance do not admit all of the foregoing statements. They deny that a cut price hurts the reputation of an article. They say that when a person buys a branded article at a cut price he feels he has secured a bargain and not that the local dealers are overcharging him. Such low prices stimulate sales and get the product into the hands of new users. If the product really has merit they are likely to become regular users. Cut prices are thus in the interest of the manufacturer and should be encouraged by him. A great many manufacturers seem to take this position and offer no objection to cut price stores handling their products. Other manufacturers do all in their power to prevent their products being sold at cut prices.

Has the producer an interest in his product after it leaves his hands?—The advocates of maintained resale prices argue that the manufacturer through his advertising really sells the goods to the consumers; that the dealers are only distributors, that they have little or no part in the creation of demand; that the goodwill in the product belongs to the producer and that anything that hurts the goodwill of the product hurts the manufacturer. The opponents on the other hand, argue that the manufacturer has no interest in the goods after he has sold them and has received his pay; that the dealers really make the sales; that the manufacturer has no financial interest in their stores and hence has no right to dictate their gross profits; that operating conditions are different in different parts of the

country and in different stores, hence the dealers are the only ones in a position to know what prices are necessary to cover operating expenses and leave a fair profit; and that as long as the dealers do not alter or misrepresent the goods the manufacturer's goodwill is in no way injured.

Legality of resale price maintenance.—The right of the producer to fix the resale price of his goods has been much disputed. Many cases have reached the courts and the decisions rendered are most confusing to the layman. Cases are still pending before the United States Supreme Court so that the legality of the practice under existing laws cannot be said to have been finally determined. According to the decisions so far rendered it appears that the producer, who has no monopoly, can suggest resale prices to the dealers, and refuse to sell those who do not observe the suggested prices. The producer cannot, however, force the dealers to observe these prices and any contracts binding the dealers to sell only at specified prices are invalid. The only weapon of the producer is the refusal to sell to cut-price stores based on the right of a seller to choose his own customers.

The producer can legally maintain his prices by retaining title to the goods until they reach the consumers' hands. This can be done by selling the consumers direct, or by consigning the goods to the dealers to be sold on a commission basis. This method is, however, unsuited to the use of most manufacturers.

Proposal to legalize resale price maintenance.—For several years past proposals granting producers the right to fix the resale prices of their goods have been advocated. Several bills granting this privilege have been introduced into Congress but so far all have failed of passage. The agitation for the passage of these bills has shown a great difference of opinion among business men as to the desirability of allowing producers to dictate the resale price of their goods. Most of the manufacturers of branded and widely advertised goods and most of the small retailers appear to favor the passage of such a law. On the other hand most of the cut-price stores, chain stores, department stores, and dry goods stores appear to oppose the passage of such a law. Many manufacturers and dealers are indifferent. In order to protect the public most of the proposals contain the provision that before a resale price may be fixed it must be approved by some government agency (e.g. The Federal Trade Commission) which would pass on the reasonableness of the price. Some of those who favor the principle oppose the passage of such a law on the ground that it would be an opening wedge for government regulation of prices. Some manufacturers prefer to take their chances of maintaining their prices by a refusal to sell rather than to submit to government supervision.

Is resale price maintenance in the interest of the consumers?—The right of the producers to fix the resale price of their goods should be predicated upon the interests of the consumers. Producers and

dealers both exist for the sole purpose of satisfying the wants of the consumers. There is, however, a difference of opinion as to whether price maintenance is in the interest of the consumers.

The advocates of resale price maintenance claim that it is in the interest of the consumers. They argue that it insures the public receiving a good quality of goods. Without resale price maintenance the quality deteriorates. The practice insures a fair price to the public since the manufacturer allows the dealers only a reasonable profit. The manufacturer is interested in increasing his sales and so fixes a low resale price. Some dealers object that the margin allowed them is too small. The dealers can, however, handle advertised, branded goods more cheaply than other goods. The customers ask for such goods by name. No time is lost in assuring the buyers as to the quality or in waiting for them to make up their minds. With such articles as groceries or drugs about all the retailers have to do is to wrap up the goods and make change. Goods with fixed resale prices are often package goods, in which case there is no loss to the dealers and no time is needed for weighing or measuring the goods. It is further argued that cut prices involve no saving to the buyers. Cut price stores, it is claimed, simply use well known goods as loss leaders to attract people to their stores and more than make up for such loss on other goods.

Resale price maintenance said to be opposed to interest of consumers.—The opponents of resale

price maintenance argue that maintained prices are opposed to the interests of the consumers. The only protection of the buyers is to shop around and buy goods where they can get them the cheapest. Maintained prices prevent the efficient merchants from passing the benefits of their efficiency on to the consumers. It is well known that some efficient stores with quick turnovers can afford to sell goods cheaper than less efficient stores with slow turnovers. It is argued that the right to maintain prices, simply means that the producers can spend millions for advertising and then tack the cost of advertising on to the cost of the goods and force the consumers to pay the bills. It is denied that maintained prices lead to a higher quality of product. It is claimed that mail order houses, chain stores, etc., can buy the same quality of goods without the makers' brands much cheaper than the makers will sell their branded product to the ordinary dealers.

Economy stores.—It is further argued that maintained prices make no allowance for economy stores. This is not inherent in the proposal for maintained prices. The producer of a well known brand of baking powder, who has fixed resale prices for several years, has frankly recognized that different stores perform different services and has allowed for a corresponding variation in price. For example, a can of baking powder with a retail price of 15 cents may be sold for 14 cents by a store furnishing credit or delivery service (but not both), and for 13 cents by a cash-carry store. Many manu-

facturers have not recognized the difference between economy and other cut-price stores. The cash-carry plan affords people who desire to economize an opportunity to do so, any plan of maintained price that does not allow for cash-carry, self-serve, and other types of economy stores is plainly not in the interest of a large class of consumers.

Additional arguments in favor of resale price maintenance.—Some other arguments that have been advanced in favor of resale price maintenance are as follows:

Prevents the consumers from being overcharged by profiteering dealers.

Keeps the small dealers, especially the neighborhood stores, in business. It is argued that these stores fill a real need and that unlimited price cutting by the large stores would force them out of business.

Keeps competition alive and prevents monopoly It is argued that unrestrained competition and price cutting leads to widespread business failures out of which the strongest concerns emerge as monopolies.

Prevents unfair practices and puts business on a higher plane. Resale price maintenance does for business what the rule against hitting below the belt does for boxing.

It enables the manufacturer to get the advantage of his advertising. It is denied that advertising adds to the price to the consumers, the argument being that advertising cuts down the other expenses of marketing and so enables goods to be distributed as cheaply as if they were not advertised.

Additional arguments against resale price maintenance.—Other arguments against resale price maintenance are as follows:

It keeps the inefficient dealers in business. The consumers should not be taxed to support dealers who cannot hold their own under free competition, as is done when all dealers are allowed the same margin of gross profit.

It is unfair to the dealers as it prevents sales to stimulate business during dull seasons.

It prevents dealers from disposing of soiled or shelf worn goods; and likewise prevents them from cutting prices on goods on which they are overstocked. These objections, however, are not inherent as some proposals provide that if the manufacturer refuses to take back such goods the dealers may sell them at reduced prices.

It makes the dealer mere slot machines. This is not necessarily an evil if this is a more efficient method of distributing goods.

It is unfair to the small manufacturers who cannot afford to advertise extensively. Such manufacturers would be eliminated leaving the business in the hands of the large manufacturers who would gradually monopolize the market.

Cut prices from the dealers' viewpoint.—In the foregoing paragraphs we have discussed resale price maintenance. Assuming that the dealers have full power to cut prices what are the advantages of this policy from their standpoint? This depends upon how much prices have to be cut and how much

such cut prices increase sales. Suppose a dealer has sales of $100,000, cost of sales of $75,000, and expenses of $20,000. This gives him gross profits of $25,000 and net profits of $5,000. Suppose that he cuts the prices on 10 per cent of his stock to the cost of the goods to him and that this reduction doubles his sales of the cut-price articles and increases the sales of the balance of his stock by 20 per cent. His sales would then be $123,000 (20% increase on $90,000 and $20,000 cut-price goods sold at 25% discount); his cost of sales $96,000, and his gross profit $27,000. If his expenses remained stationary his net profits would be increased $2,000. It is very likely, however, that his expenses would be increased somewhat by the increased volume of business and by the necessary advertising so that his net profits would be little if any larger. Now suppose that he reduced the prices on 10 per cent of his goods by only 20 per cent and that the sale of his other goods was increased by 50 per cent. His total sales would now amount to $151,000 ($90,000 increased by 50% plus $20,000 cut price goods sold at 20% discount), his cost of sales to $116,250, and his gross profit $34,750. He could now pay considerably larger expenses and still have larger net profits than before starting his cut price policy. In both of these examples it has been assumed that no prices were increased to compensate for the cut prices.

From the two above examples it is clear that to be successful a cut price policy must result in a con-

siderable increase in sales. If the increase is small the policy will very likely result in lowered profits. On the other hand if sales are increased 50 to 100 per cent the policy is likely to be very profitable. The location of a store, its advertising methods, and its reputation may determine whether it can operate on a cut price basis successfully. A neighborhood store draws trade from a very limited area for which reason it may be unable to increase its sales materially by the use of cut prices. A store located in a shopping center, however, may be able to increase its sales considerably by relatively small reductions in prices, if these reductions are properly advertised.

Odd prices.—In the foregoing discussion we have not specifically mentioned the importance of odd prices in attracting retail buyers. As a rule people like to purchase articles requiring few coins, 5c., 10c., 25c., 50c., and $1. This objection to prices requiring several coins is, however, very largely overcome if the buyers feel that they are getting reduced prices. Hence such odd prices as 29c., 48c., 98c., etc. Slight reductions of 1, 2, or 3 cents may stimulate sales considerably. The idea of price reductions may at times be given by raising instead of lowering prices. The statement has been made that more articles can be sold for 11 cents than for 9 cents because 11 cents suggests a reduction from 15 cents while 9 cents only suggests a reduction from 10 cents.

CONCLUSIONS

All manufacturers and dealers should give careful attention to formulating their price policies. Some manufacturers may find it to their advantage to sell to all buyers on the same basis while others may find it desirable to give different buyers different prices depending upon their position in the trade or upon the quantity purchased. Some producers may find it desirable to make price concessions to secure large orders, while others with well-known products may find that such price concessions sooner or later react to their disadvantage. Some dealers may find it the part of wisdom to use the same percentage of mark-up on all goods and to hold to the same prices the year around. Other dealers, especially those handling style goods, may find it good policy to mark the goods for very high profits early in the season and then to make successive price reductions on the unsold portions until a part of the goods may be "closed out" below cost. Some dealers may find that off season sales are very profitable while others may find that such sales only secure business which they would get without such sales at the regular prices.

The demands and the psychology of the buyers, the policy of competitors, the quality of the product, the cost of production, the method of distribution, and general business conditions should all be considered in the attempt to determine the most desirable price policies.

BIBLIOGRAPHY

Frederick, J. George: "Modern Salesmanagement," chs. 5, 8, 9, 10, 20, 21 and 23.
Nystrom, Paul H.: "The Economics of Retailing," 1919, ch. 14.
Butler, Ralph Starr: "Marketing Methods," chs. 19, 20, and 21.
Duncan, C. S: "Marketing," ch. 17 and 21.
Murchison, Claudius Temple: "Resale Price Maintenance," Col. University Studies in History Economics, and Public Law, vol. 82, 1919.
Alexander Hamilton Institute: "Marketing and Merchandising," 1919, pt. I, ch. 12.
Fernley: "Price Maintenance."
Cherington, Paul T.: "Elements of Marketing," ch. 17.
Ivy, Paul W.: "Principles of Marketing," ch 15.
The various trade and business papers contain many interesting and instructive discussions of various aspects of the various problems.

CHAPTER XXII—QUESTIONS

1. The Adams Company manufactures grocer's specialties and sells the retail dealers direct. It has adopted the policy of selling to all dealers at uniform prices. A large chain store demands a price concession. If it is refused the chain store will likely secure similar products to be marketed under its own brands. Due to bulk shipments, small selling expense, and cash payments the price offered by the chain store will yield a fair profit. The price will, however, enable the chain store to undersell the other retail grocers who will probably complain bitterly. With this feeling they cannot be depended upon to push the Adams line. Many of them may substitute other lines not handled by the chain stores. Should the Adams Company sell to the chain store at the low price?
2. The Hickory Plow Company manufactures tillage implements which are sold to the retail dealers throughout the Middle West, East, and South. The implements enjoy a high reputation among the farmers. The company would like to sell all retailers at the same price except for freight and a slight allowance for the quantities purchased. There are, however, many small factories in the East and South that have been in business for years. The implements made by these local plants are well known in the counties surrounding their factories.

Due to low overhead expenses and low delivery costs to the dealers these local companies can undersell the Hickory Company in the territories adjoining their plants. The Hickory Company can get little more for its implements than is asked by the local concerns due to the reputation which each of the latter has in its own territory. To meet these prices would mean that sales would have to be made at cost or at a very small profit. To pass these territories would mean the loss of a large volume of business. What policy should the Hickory Company adopt?

3. The X Company makes a high grade line of cooking utensils, which are sold to the consumers by specialty salesmen and to the retail hardware, and department stores. When the Company was started the retail stores failed to place the line on the market so that the company employed specialty salesmen. These salesmen are still given the exclusive right to sell certain "specialties." The standard line is, however, sold in many territories by both retail stores and specialty salesmen. The goods are now so well known that the larger stores frequently feature the goods as leaders at cut prices. These cut price sales mean increased sales for the X Company and also help to get the utensils into new homes. They, however, arouse the ire of the small hardware stores and the specialty salesmen. The latter often complain very bitterly of these cut price sales saying that they make it almost impossible for them to make sales even of the specialties. Should the X Company refuse to sell to stores that cut the prices of its goods?

   One student of the problem suggests that the company allow the retail stores to run special sales for short periods on a few specified utensils which are not important to the specialty salesmen. Stores that go beyond this in cutting prices are to be cut off the list of customers. Discuss this proposal.

4. The Bristol Company manufactures watches, which are nationally advertised. Enumerate the advantages and disadvantages of maintained resale prices to the Bristol Company and to a retail jeweler who handles this watch in a town of 10,000 people.

   Would the situation be the same if the company produced hosiery? kitchen cabinets? shoes? baking powder? typewriters? candies?

5. The Springfield Company manufactures overalls and work shirts which are sold to the retailers on a delivered (freight pre-

paid basis). The price of cotton and of most textiles is declining. There is a large amount of unemployment which curtails the demand for the product. The dealers are afraid of price declines and so are buying only from hand to mouth. The Springfield Company's salesmen are getting few orders except for fill in sizes. The plant is working only part time and may have to shut down entirely in the near future. The company in order to stimulate sales considers guaranteeing the dealers against a decline in prices for ninety days after purchase. The proposal is that if the Company reduces its prices within 90 days after a dealer has purchased a shipment of goods that he will be given a rebate equal to the price reduction on the amount of goods in stock on the date the price reduction is announced. What risks will the Springfield Company assume under the proposed scheme? Is it advisable under the circumstances?

6. The Baldwin Company manufactures rugs and carpets. Prices are falling and the consumers are delaying their purchases in the hope of lower prices. Guaranteeing the dealers against price declines would do little good as most of the dealers have full stocks. The Company therefore proposes to allow each dealer to guarantee the consumers against a decline in prices for a period of six months. Under this policy the local dealer would mail a check to each buyer in case the Baldwin Company reduced its price within a period of six months after a rug or carpet was purchased. Would this be a successful method of stimulating sales? What problems would it involve? Would it be advisable under the circumstances?
7. The Williams Wholesale Grocery Company, each year handles several hundred thousand dollars worth of canned goods. It is customary to contract in the spring for a very large part of the next season's needs, deliveries to be made in the fall after the goods are packed. Binding contracts may be made at specified prices; the price may be named but the seller may guarantee the buyer against declines in his own prices; contracts may be made on the s. a. p. basis; or on the f. o. p. basis. Outline the advantages and disadvantages of each of the contracts from the Williams Company's point of view? From the canner's point of view?

Chapter XXIII

THE COORDINATION OF MARKETING POLICIES AND ACTIVITIES

There are many marketing policies that cannot be discussed in this book. Such topics as Salesmanship, Sales Management, Credits and Collections, and Advertising are often considered as separate subjects and may be studied as such. It is very important that all the selling policies and all activities concerning the marketing of a firm's product be properly coordinated. The work of all departments should be carefully adjusted so that friction will be avoided and duplication of work eliminated. All departments should work for a common aim—the success of the concern's policies and ideals. The purpose of this chapter is to outline some factors that will aid in the formulation of the various selling policies and to point out ways in which these policies and the activities of the various departments should be coordinated.

Relation of selling and production.—Throughout most of the history of the world production has been a more important problem than marketing. During the last century, however, the mechanical inventions have so stimulated production that it has be-

come very difficult in many instances for the manufacturers to sell the output of their factories at a profit. The quantity of goods produced has been limited by the quantity that it was possible to sell. It must not be inferred from this that here is an overproduction of goods. There are hundreds of millions of people in various parts of the world who consume very few manufactured goods and there are millions in the United States who would consume more manufactured goods if they could afford to do so. The American manufacturer has an immediate interest in the raising of the standard of living of the masses not only in the United States but throughout the world.

The individual manufacturer has often been in a position to produce more goods than he was able to sell at a profit. For this reason, many persons have said that there is no longer a problem of production, that the only problem now is one of market distribution;—or that anything that can be sold can be produced. Neither of these statements is literally true. There are still many problems of production especially in the field of human relations. Also, there are many things that could be easily sold that have so far not been produced, for example, a satisfactory talking moving picture, or a device for economically cooling our homes in summer.[1] Nevertheless, the difficulty of profitably disposing of the normal output of their plants has caused

[1] Read Horne, Frank A.: "You Will be Amazed at the Wonders of Cold Storage," *American Magazine*, August, 1921.

many manufacturers to place greater emphasis on selling than on production and to consider a good salesforce as the most valuable asset.

Relation of the sales and production departments.—Many salesmen and sales managers have taken the attitude that they should be allowed to specify the kind of goods to be produced. This often leads to friction with the production department. The latter feels that it can best decide what goods should be produced and that it is the sales department's job to sell whatever goods are turned out by the factory. No general rule can be laid down as to whether the sales department should dictate to the production department what goods are to be produced or whether the production department should dictate to the sales department what goods are to be sold. With staple articles like nails or lumber it is perhaps the duty of the sales department to take the plants' output and dispose of it to the best possible advantage. In the case of style goods on the other hand, it is the duty of the production department to produce the goods specified by the sales department. The important thing is that production and selling be properly coordinated. The two policies cannot be entirely separated. Goods should be produced that are desired by the consumers and that can be sold in competition with other products. The concern that can give the most for its money, that can produce an article that will give more service for the price than any other competing article is the concern that

is most likely to sell its entire ouput at a profit. A concern with an active sales department may be able to secure more business than another concern with a better product but with a weak sales organization. Nevertheless, a high quality of product and a low price are the greatest assets in selling.

The sales department feels that it is in a better position to know what the consumers want and hence that its ideas of production should be followed. The danger of following the suggestions of the sales department too closely is that they may lead to a great diversification of styles, sizes, colors, and packages. America's industrial growth has been based very largely on standardization of product and large scale production. A great diversification of output, greatly increases the cost of production. Henry Ford has been one of the leading exponents of standardization and quantity production. It is said that during the period of the rapid growth of his plants that his salesmen would come to him and say that if this change or that change was made in the car that so many thousand more could be sold. His reply was said to have been that the production of such special types of cars would prevent the production of a much larger number of standard cars. As long as the entire output of standard cars could be sold his policy was undoubtedly right. If, however, the plant was partly idle it might have been wise to have followed a different policy.

Formulation of production policies.—The object is to turn out the product, or products, best adapted

to the demands of the consumers. Most concerns must produce those things for which there is a demand. Even a saw mill must cut its lumber in the sizes demanded by builders and manufacturers. Some methods of analyzing the market to determine the demand have been outlined in a previous chapter. Perhaps in most cases the sales department is in a better position to know the demand than the production department. They should realize quickly what attachments, designs, colors, or styles will meet with public approval. In case of disagreement between the two departments concerning the advisability of placing a new design or product on the market the wise policy may be to produce a limited quantity of the proposed article and try it out in a limited territory. If it meets with general approval there its production may be increased. There are of course new products for which the demand must be created. If an article is invented which would satisfy a definite want, even though the public knows nothing about it, it is the work of the sales department to educate the public and sell the product.

The management should see that the production and selling policies are properly coordinated. Ordinarily, the sales manager should know what should be produced. He may, however, be so lost in details that he fails to see the important principles that should determine the concern's selling policies. He may propose such a diversity of products that the cost of production is greatly increased. A family of products may be a very desirable thing

from the standpoint of the salesmen. Much information, however, indicates that the production of a varied line limits standardization and quantity production and increases costs. The specialty manufacturer may be handicapped in marketing his product but he may have such an advantage in production that his business yields larger profits on the investment than that of his full line competitor. The determination of such fundamental policies is a matter for determination by the executive officers or owners of the concern.

Formulation of advertising policies.—Some manufacturers do little or no advertising depending on their salesmen, sales agents, or brokers to dispose of their output. This policy is very likely to be followed by small manufacturers or producers of staple raw materials used by other manufacturers. On the other hand, manufacturers of new products or large producers of branded merchandise may advertise very extensively. Some concerns dispense entirely with salesmen and sell their product entirely by mail. Most concerns, however, make extensive use of salesmen regardless of how much advertising they do. The reason for this is plain. There are four steps in making a sale; first, attracting attention; second, arousing interest; third, creating desire; and fourth, securing action. Advertising may attract attention, arouse interest, and create desire but it is weak on securing action or actually making the sale. How many of us have had a desire for goods which we never bought? We may even stop in a store to make

the purchase but perhaps we don't get waited on promptly and decide to wait until the next day. By the next day our desire has cooled and very often the sale is never made. Many of us even cut advertisements out of papers thinking that we'll "stop in" the next time we pass the proper store, or that we'll write the letter tomorrow and yet we never "stop in" nor write the letter and the purchase is never made. A great many concerns use advertising as an aid to personal salesmanship either in preparing the ground for the salesman or in creating consumer demand. The salesman who can tell the dealer that he is selling an advertised and well known product for which the consumers will ask by name has one of the strongest selling arguments. Again a circular or advertisement cannot answer questions and most buyers like to ask questions before making important purchases.

Cost of advertising.—The amount of money spent for advertising varies widely. The California Fruit Growers Exchange carries on a national advertising campaign for 66/100 of 1 per cent while the advertising of small concerns that carry on extensive campaigns may amount to 5 or 10 per cent of sales. The amount to be spent for advertising will depend very largely on the article to be sold and the method adopted for selling it. The concern selling the consumers by mail will need to spend much more for advertising than the concern selling the consumer through specialty salesmen. The concern producing an article in general use will likely spend much more for advertising than the concern that has a large

machine for which there are few possible buyers. The new concern will need to spend more than an old established concern.

Choice of mediums.—Having decided to advertise the concern must give careful consideration to the selection of mediums—newspapers, magazines, trade papers, farm papers, programs, bill boards, electric signs, posters, pamphlets, catalogs, circulars, street car cards, slides for moving picture theaters, souvenirs, calendars, cards for the retailers windows, etc. The concern that desires to cover a city may select the local newspapers while the merchant who desires to cover only a part of a city may choose posters, bill boards, circulars, souvenirs, or programs. The concern that is working for national distribution of a product used by the public may select magazines having a national circulation. The statement has been made that the rates are lower (in proportion to circulation) in the daily papers than in the weekly or monthly magazines. On the other hand, the newspapers are read more hastily and thrown away sooner than the magazines. The product bought only by a given class is likely to be advertised very largely in trade papers. A product used exclusively on the farms may be advertised to good advantage in the farm papers, while electrical machinery should be advertised in papers read by electrical engineers. Careful attention should be given to the selection of the mediums that produce the greatest results for the smallest expenditure. Many concerns use a large number of different

mediums. The difficulty with many forms of advertising is that there is no way to measure the results obtained from a given expenditure.

Advertising vs. publicity.—Some men claim that more can be accomplished in building up goodwill and getting people to talking about a product by publicity than by advertising. Hence, they have given all items of general interest to the press, have encouraged their employees to write articles for the trade papers or magazines, and have availed themselves of opportunities to have their men speak to various organizations. Others have made it a policy of showing visitors through their plants. Such articles or speeches perhaps do not mention their products specifically but the fact that the writer or speaker is with such and such an organization gives it publicity. Some concerns prepare special news services for distribution or have experts to make studies of general interest. Press agents may be employed. Some people have credited one of our leading manufacturers with doing things that appeared unusual or peculiar for the sake of getting newspaper publicity.

Business concerns too secretive in the past.—In the past most of our business men have been too reticent. Many of them have taken the attitude that the public had no interest in and no right to know anything about their business It is not too much to say that the consumer has an interest in every product that he consumes. If the consumer eats a beefsteak produced by Swift & Co., he has a right to know

something about Swift & Co's business. The Chicago meat packers adopted the policy of telling the public something about their business while under Government investigation (1917-1919). This policy was commendable but if it had been adopted 25 years earlier, the investigation very likely would never have been necessary. Business men have been in the habit of regarding too many matters as confidential. The author has had men take him into the back room, lock the door, bind him to absolute confidence and then tell him something that could just as well be published in the local papers.

The author can think of but three reasons why a concern should desire to keep information secret. First, because it has been guilty of some illegal or unfair practice; second, because its finances are in such a condition that its credit standing would be injured if the conditions became known; and third, because of some secret method, or process that gives it an advantage over its competitors. Due to the work of commercial and trade organizations the third reason has now very largely disappeared. The business concern that follows the old policy of secrecy is likely to be suspected of coming in one of the two first classes. Publicity should be sought and not shunned by business concerns as it is a valuable asset.

Coordination of advertising and selling activities.—Instances have been reported of the advertising department using one line of argument while the salesmen use an entirely different line and make no use of the advertising. Again intensive sales efforts

may be carried on in one territory while the advertising department is concentrating on another territory. The sales department and the advertising department should coordinate their work and carry out uniform policies so that both the salesmen and the advertisments will produce the best results. The salesmen should be kept informed of the advertising being done so that they can make full use of it in their work.

Credit policies.—The credit policy of a concern may have a considerable influence on its sales. The advantages of cash sales to the seller have been previously commented upon. The extension of credit is, however, necessary in many cases. Sales in the rural districts have often been made on very long time. During the past few years much has been said about the necessity of extending long credits on sales made in many foreign countries. The extension of credit requires more capital and involves expenses for the maintenance of a credit and collection department, for extra bookkeeping, and to cover losses from uncollectable accounts. Sales on credit are often necessary in meeting competition and may greatly increase the volume of sales. The installment method has undoubtedly increased the sale of furniture. Long terms may induce the wavering merchant to purchase large quantities of goods. The extension of credit may be as important a factor in making sales as the price of the goods. Many dealers depend upon the credit extended to them by wholesalers or manufacturers for a large part of their

capital. Without such credit many dealers would be forced out of business. This is especially true when credit must be extended to the consumers. When long credits have become established in a trade they are very hard to eliminate. Fifty years ago when the western states were being settled most of the farmers in these states were without capital to pay for land or equipment. If they were to be sold they had to be sold on credit. Long credits become the rule in the sale of farm implements. After the farmers got their farms paid for and equipped the credit terms were shortened. According to common report, however, it has never been possible to sell farm implements on as short terms as automobiles, which were introduced after the farmers were able to pay more promptly. One estimate, however, is that 46.7 per cent of the automobiles sold in the United States are sold on a time payment plan.

Choosing the proper credit policy.—Some concerns have achieved success by selling only for cash while others have been successful by extending very long credits. Most concerns follow an intermediate course. Some give only short credit but extend credit to almost anyone. This is practically the policy of many concerns selling meats or fruits to the retailers. Such goods are generally resold by the retailers before they have to be paid for so that little capital is needed by the retailers. As the credit is for short periods and as the bills are paid frequently an individual seldom owes a large sum. Other concerns may extend credit for long periods but exercise great

care in passing on risks. Some concerns sell on open account, others use trade acceptances, others require promissory notes, while still others may retain title to or a lien on the goods until paid for. Every business concern should give careful attention to the selection of its credit policy so that the policy best suited to its needs can be adopted.

Work of the credit department.—It is the duty of the credit department to see that the credit policies are properly carried out. The object of the credit department is to approve as many sales as possible and at the same time reduce losses to a minimum. In investigating the standing of a purchaser there are several sources of information; reports of salesmen; reports of mercantile agencies; financial statements submitted by the buyer; reports obtained from other sellers as to their experience with the buyer; and reports from local banks, business men, or others located near the buyer. Many factors must be considered in passing on an application for credit. Not only should reports be analyzed but the moral risk should be considered. Many dealers who have a very poor credit rating with the mercantile agencies, or who are not rated at all, may be very satisfactory customers. On the other hand, dishonest men may find a way to avoid their obligations in spite of careful examinations of the ordinary sources of credit information. The business history of an applicant is very important to the credit man. The man who has had several fires or who has gone through more than one bankruptcy proceeding is likely to be

looked upon with suspicion by the credit men. The ability of the credit man to read human nature is a very important asset.

Relation of sales and credit departments.—Friction between the sales and credit departments is all too common. The salesman who has worked hard to secure an order feels none too good when the credit department turns it down, especially if he is working on a commission basis. The salesman feels that he is qualified to pass on the ability of the buyer to pay for the goods. This should be true and very often is. The salesman is in closer touch with the customers than any one else in the organization and is in a better position to know how they are succeeding. The trouble with many salesmen is that they are so anxious to secure orders that they hesitate to make a thorough investigation of the buyers' financial conditions for fear of arousing antagonism. Questions as to a buyer's finances must be asked very diplomatically but the salesman should be qualified to do this. The salesmen should realize that it is not advisable to take an order which will not be paid for. The salesman should know something about credits and how to judge the ability and character of his customers. In selling goods he should have a clear understanding with his customers as to when and how payments are to be made.

The credit department on its part should realize that no good risks should be rejected and that the conduct of its affairs has a great deal to do with the success of a concern's selling policies. It should at-

tempt to make friends for the business, to develop slow payers into desirable customers, and to build up goodwill and make "resales" while collecting accounts. When the sales department and credit department cooperate properly each will be of great assistance to the other.

Financial policy.—The selling and credit policies of a concern are closely related to its financial policy. The sales department may believe that the extension of long credits would greatly stimulate sales while the financial department may see that such long credits would be impossible without securing additional capital. In making its plans the financial department should know what sales are being made, what sales are expected, and how much money will become due each month on accounts and notes receivable. The sales, credit and collection, and financial departments should work in cooperation. In periods of business depression dealers or small maufacturers may need more and longer credit than at other times. The wholesaler or manufacturer who is financially able to extend such credit may be able to secure new customers, increase his goodwill, and strengthen his position in the market.

Service policy.—Many manufacturers of mechanical products operate service departments to keep their products in successful operation. The sales of any product must depend in the long run on the service which the product gives in actual use. The service obtained from a mechanical product whether it be a typewriter, a grain binder, or a tabulating

machine, depends very largely upon how well it is cared for and kept in repair. It is therefore in the interest of the producer to see that his product is kept properly repaired. The work of the service employees is very important. They should be taught not only how to make repairs but how to instruct the users in the use of the product. What they say will have an important bearing on the customer's opinions of the product. They should be trained to carry out the firm's policies.

Broader aspects of services.—In a broader way service covers not only the making of repairs, the prompt delivery of goods, and the extension of needed credit but the quality of the goods sold and their adaptability to the needs of the buyer. The highest type of salesmanship consists in selling "service." The salesman should know his goods so thoroughly that he can help each customer to make the proper selection. This is true whether the salesman is selling women's clothing to a retailer, electric dynamos to a factory, or a heating system to a home owner. The salesman who wins the respect and confidence of his customers because of honest dealings and sound advice given is laying the broadest foundation for large sales for himself and his company.

Sales management.—The management of the sales department is an important matter and should not be left to a minor official. In many successful companies the sales manager is a vice-president and occasionally the president personally supervises the sales department. The selection and training of

salesmen, the choice of method for paying salesmen, the laying out of territories, the fixing of sales quotas, the supervising of sales conventions, the conduct of sales contests, the securing of dealer cooperation, and the planning and management of special campaigns are all matters of great importance. The development of loyalty, enthusiasm, industry, confidence, and satisfaction among the salesforce is essential to an efficient sales organization.

Intensive selling.—By intensive selling is meant to work the territory thoroughly and to obtain the largest possible number of customers. It has previously been estimated that the specialty and general stores sell 75 per cent of the merchandise sold in the United States. Eliminating the large city specialty stores it is clear that considerably more than half of the retail business is done by the small city, surburban, and rural stores. The concern that desires to attain a national distribution cannot afford to overlook the small dealers. It is often impossible to secure a satisfactory volume of business without selling to the small dealers. So many manufacturers desire to sell the large distributors that competition for their business is very keen. Some very well known products may have an 85 or 90 per cent distribution but the average is very low, many articles have scarcely a 20 per cent distribution even though sold and advertised nationally.[2]

Energetic, persevering, salesmanship and persistent advertising are the methods ordinarily em-

[2] Frederick, J. George: "Modern Salesmanagement," p. 81.

ployed to secure a high percentage of distribution. Many salesmen skim their territories. A sales-manager who had been preaching intensive selling to his men took a census of the dealers in several districts to ascertain the percentage of distribution attained in different territories and by different salesmen. One district manager thought there were 600 dealers in his territory, whereas by actual count there were over 1,000. A salesman was called in one day and asked how many dealers were on his route and how many he was selling. He replied that he knew all about intensive selling—he thought there were 60 dealers on his route of whom he was selling 50. By actual count there were 112 dealers on his route and he was selling only 28. The policy of this company is to have its salesmen call on all dealers regularly and to keep calling until sales are made.

Special contests and advertising campaigns are often used. One chief aim in sales promotion is to secure the cooperation of the dealers in pushing the sale of the goods. When it is desired to stimulate sales or to introduce new products a common method is to concentrate on one territory at a time. Liberal use is often made of local advertising and special salesmen. Stocks of goods should be available in the hands of the wholesalers or in warehouses to keep the retailers supplied. When the special campaign is completed in one city it may be launched to another leaving the business in the first city to the regular salesmen.

The complete policy.—There should be genuine cooperation between all departments of a business organization so that it will operate like a carefully adjusted and well oiled piece of machinery. The policies of the sales, production, and financial departments should be carefully adjusted and should all dovetail together. The advertising, credit, and service departments should all help to carry out the broad selling policies of the organization and should cooperate with the salesmanager and salesmen. The salesmanager and salesmen, on their part, should cooperate with the advertising, credit, and service departments. No system can be devised which alone will secure the ideal cooperation. Petty jealousies may defeat the most perfect system. As long as an organization is composed of men the human factor must be considered. To accomplish the best results all men in the organization should have confidence in the firm, in the product, and in their superiors; respect for their fellows; satisfaction with their treatment; an incentive for improvement; and an interest in their work.

BIBLIOGRAPHY

Aspley, J. C.: "What a Salesman Should Know About Credits."
Brisco, Norris Author: "Fundamentals of Salesmanship."
Blackford, Katherine M. H. and Newcomb, Arthur: "The Job, the Man, and the Boss."
Butler, Ralph Starr: "Marketing Methods," ch. 18.
Butler, DeBower, and Jones: "Marketing Methods and Salesmanship."
Calkins, and Holden: "Modern Advertising."
Cherington, Paul Terry: "Advertising as a Business Force."

Copeland, Melvin T.: "Business Statistics"
Duncan, C. S.: "Marketing," ch. 17, 18, and 19.
Ettinger, R. P. and Golieb, D. E.: "Credits and Collections."
Frederick, J. George: "Modern Salesmanagement."
Gardner, E. H.: "New Collection Methods."
Griffith, J. B.: "Credit Organization."
Hagerty, J. E.: "Mercantile Credit."
Hollingsworth, Harry Levi: "Advertising and Selling."
Jones, John G.: "Salesmanship and Salesmanagement," Part II.
Kniffin, W. H.: "Essentials in Granting Credit."
Knox, James Samuel: "Business Efficiency."
Lewis, E. St. Elmo: "Financial Advertising."
Mahin, John Lee: "Advertising, Selling the Consumer."
Maxwell, Wm. M.: "Training of a Salesman."
Moody, Walter Dwight: "Men Who Sell Things."
Opdyche, John Baker: "Advertising and Selling Practice."
Prendergast, W. A.: "Credit and Its Uses."
Scott, Walter Dill: "Influencing Men in Business."
A. W. Shaw & Co.: "How to Finance a Business"; "Handling Salesmen at Lower Costs."
Skinner, E. M., Lasalle Extension University: "Credits and Collections."
Starch, Daniel: "Advertising, Its Principles, Practice and Technique."
System Co.: "How to Increase your Sales."
Tipper, Harry: "Advertising."
Tipper, Harry: "The New Business."
Whitehead, Harold: "Principles of Salesmanship."

CHAPTER XXIII—QUESTIONS

1. Should the sales department dictate to the production department what should be produced? Why or why not? Discuss.
2. Should the advertising department be subordinate to the sales department; should the sales department be subordinate to the advertising department; or should the two departments be separate and of equal rank? Why? If you think they should be separate how can their work be co-ordinated?
3. What is meant by publicity? What is its value to business concerns? Should all business concerns publish figures showing their sales, gross profits, expenses, net profits, rates of turnover, and investments? Discuss.

4. What should be the relation of the credit and sales departments?
5. To what extent should the credit department accept the salesmen's reports in extending credit to retail dealers?
6. How should the men in the service department be trained in order to promote the company's sales.
7. A company has been organized in the Southwest to produce grocers' specialties. It expects to sell the retail grocers over a radius of 250 or 300 miles. Its source of raw materials, low overhead expense, and wage scale, together with efficient management methods insures it a low cost of production so that it can meet or undercut all competitors' prices. The capital is, however, limited and it seems impossible to extend much credit to retailers. The prevailing terms in the district are 2 per cent discount for payment within 10 days and net 30 days. These terms are, however, not enforced by all sellers. Discounts are often taken twenty or thirty days after date of invoice and payments at the net price are often accepted 60 or 90 days after date of sale. The company is considering methods of avoiding the necessity of keeping capital tied up in "accounts receivable." One suggestion is to give 5 per cent off for cash payments, shipping all goods c. o. d. or "to order" with draft attached to bill of lading. Another suggestion is to require all buyers to sign trade acceptances, which could then be discounted at the banks. What would each of these methods involve? Are they practicable? Could new brands be introduced under such terms? Which method appears to offer the greatest opportunity for success? Can you suggest a better method?

Chapter XXIV

CAN THE COST OF MARKET DISTRIBUTION BE REDUCED?

In the first chapter it was shown that the costs (costs as used here refers to the spread between cost of production and price to consumer and includes both the expenses and profits of the middlemen) of marketing many commodities amounted to over 60 per cent of the total prices paid by the consumers. This high cost of market distribution is of great importance to both the consumer and the producers. It is of direct importance to the consumers as it exerts a great influence on the cost of living. It is of importance to the producers as it decreases the demand for their products or lessens the price which they receive. If the cost of marketing many classes of merchandise could be reduced the selling price could be lessened and the consumers would be able to buy more goods. This would mean increased sales for the producers and as more goods would be consumed it would mean a general increase in the standard of living. The increase in the amount of goods produced would afford employment for many people who might no longer be needed in commerce under improved marketing processes or methods. In many instances cheaper marketing methods would probably mean higher prices for the producers.

In discussing the possibility of distributing goods more cheaply, the distinction between the expenses and profits of those engaged in marketing should be borne in mind. Swift and Company's figures quoted in Chapter I, show that 50 per cent of the consumer's dollar goes for marketing expenses, 4 per cent for manufacturer's profits, and 9 per cent for the middlemen's profits. These figures are not to be taken as altogether accurate but they will serve as a rough approximation and should be kept in mind during the following discussion.

Four classes of proposals have been made to lessen the expenses of market distribution. First to decrease the number of middlemen, second to shorten the trade channels; third to organize cooperative marketing organizations; and fourth to develop cheaper or more efficient methods.

1. DECREASING THE NUMBER OF MIDDLEMEN

Are there too many middlemen?—This question has probably agitated the public in recent years as much as any other question relating to marketing. The number of middlemen may refer to the number within a given class, as the number of retail grocers; or it may refer to the number of middlemen through whose hands merchandise passes between the producer and the consumer.

In regard to the number of merchants in the various classes, Nystrom[1] points out that the United

[1] "The Economies of Retailing," ch. 19.

States census shows that the total number of merchants has since 1850 increased faster than the population but not as fast as the quantity of goods to be handled. The number of merchants per 1,000 population was 7.51 in 1850; 11.40 in 1890; and 10.92 in 1910. The decline of the production of goods within the home and the great increase in factory production (e.g. bread, and women's ready to wear clothing) has given the merchants more and more goods to handle. In 1850 there was one merchant to every $6,376 of manufactured goods while in 1910 there was one merchant to every $20,586 of manufactured goods. After making due allowance for the changes in prices; for the export and import of manufactured goods; for the manufactured goods not handled by the merchants (e.g. partly manufactured goods); and for the non-manufactured goods (farm products) handled by them, it appears that each dealer, on the average, handled a larger quantity of merchandise in 1910 than in 1850. In other words while the number of merchants has increased more rapidly than the population it has increased less rapidly than the quantity of goods handled. The localization of industry to secure the advantages of large scale production, the growth of the city population, and the increase in the standard of living have increased the services which the merchants are called upon to perform. Customers not only order a greater variety of goods, but they buy in smaller quantities and demand more personal attention.

This comparison with 1850 is very helpful but it

is not conclusive as we do not know whether there were too many or too few merchants in 1850.

Fewer merchants would very likely mean larger profits for those remaining in business but it is extremely difficult to say whether a great reduction in the number of merchants, taking the country as a whole, would benefit the consuming public or not. There are undoubtedly some localities that could be better served by fewer retail merchants. In the retail grocery business, for example, stores are sometimes so numerous that none of them are able to either operate at a profit or carry fresh and well assorted stocks of goods. On the other hand to decrease the number of stores would lessen competition and might allow the dealers to raise their prices.

Expenses might be somewhat reduced if retailing were conducted by a few large and centrally located stores. The information at hand, however, indicates that low operating expenses depend more on the efficiency of operation than on the volume of business. The large department stores, for example, seem to have already reached, and in some instances perhaps to have passed, the size of maximum efficiency. Further growth would apparently not lead to any lower operating expenses.

The public liberally patronizes the small neighborhood stores, which indicates that these stores perform a real service in furnishing a convenient source of supply. It is difficult to see how these neighorbood stores could be abolished without inconvenience to the public and as long as they are individually owned it

is hard to see how their number can be regulated.[2] The growth of the large chains, each of which puts only one store in a neighborhood, does, however, tend to limit the number of such small stores.

2. SHORTENING THE TRADE CHANNELS

Number of dealers between producer and consumer.—When the public speaks of "too many middlemen" it generally has in mind the number of dealers who handle merchandise between the producer and the consumer. The public generally feels that merchandise passes through the hands of too many middlemen and that the profits and expenses of these middlemen contribute in a large measure to the high prices. It believes that if the majority of these middlemen could be eliminated and merchandise be made to pass from the producer to the consumer directly or through a very few middlemen that prices would be materially reduced. The consumers especially do not see that so many middlemen are necessary and regards them as unproductive parasites preying on the long suffering and unorganized public.

A limitation of the number of middlemen handling an article between the producer and the consumer might be expected to result in a decrease in both ex-

[2] One suggestion is that the government should regulate the number of dealers. If this was done by arbitrarily allowing only certain persons to operate stores in certain localities there would be the opportunity for serious personal discriminations. If a heavy license or tax were used to reduce the number of dealers, it would be shifted to the consumers so that it is doubtful if they would obtain any benefit from lower prices.

pense and profits. The distinction between the expenses and the profits of the middlemen must be borne in mind. If merchandise passes through the hands of four middlemen, each of whom takes a profit, it might reasonably be assumed that the total profits would be less, under competitive conditions, if the merchandise passed through the hands of only middlemen. When it comes to expenses, however, the situation may be entirely different. The expenses of the one middleman might be less or they might be more than the combined expenses of the four middlemen. It is argued by some that economy in marketing, just as in production, may be obtained by splitting up the process into a number of successive steps so that the full advantage may be taken of specialization and the division of labor. According to this argument we should have a large number of highly specialized middlemen, who it is argued could distribute goods more cheaply than a few general and less specialized dealers. This might or might not be true. Sufficient information is not available to enable us to draw an accurate general conclusion. Those who have attempted to answer this question have generally based their conclusions on theoretical or abstract reasoning, or else have generalized from a few conditions or practices that have come to their attention.

Large retail organizations.—The number of middlemen handling goods between the producers and the consumers has been decreased by the development of large retail organizations. Note the recent development of the chain stores. These stores not only

eliminate the wholesalers but as they become large tend to enter the manufacturing field. Although they eliminate the wholesaler they do not eliminate the warehousing and delivery services formerly performed by the wholesaler. They do, however, eliminate the expenses of the wholesaler's salesmen and credit and collection department. It appears that competition with other chain stores forces them to pass a part of the saving along to the consumers. The mail order houses eliminate from one to three middlemen. The large department stores generally eliminate the wholesalers. The large mail order houses and department stores also manufacture a part of their goods. But as in the case of the chain stores, the expenses of the various wholesaler dealers are not altogether eliminated when their functions are taken over by the mail order houses and department stores.

Manufacturers selling direct to retailers.—The trade channels are also shortened by the growth of larger units in the field of production. Large manufacturers can often sell the retailers direct while small manufacturers are often unable to do so without incurring very heavy selling expenses. Some small manufacturers may be unable to even maintain direct relations with the wholesalers and must depend upon brokers or sales agents to market their product. The reason for this has been explained. This tendency for the manufacturers to sell the retailers direct has been a matter of comment for several years and the quantity of merchandise marketed in this way has become

very large. The wholesalers are, however, far from being eliminated. Their importance was shown in Chapter VI. Direct relations between the manufacturers and retailers eliminate the wholesaler's profits but it is not clear whether the consumer benefits thereby or not.

Relative costs.—Some people assume that direct selling, as a matter of course, lessens the cost of the goods to the retailer. This may or may not be true. It may often happen that a wholesaler handling many articles can sell a given product cheaper than the manufacturer maintaining a sales organization to sell only one product. Sufficient information is not available to enable a general statement to be made as to which method is the cheaper. This is an important matter and it is to be hoped that some governmental agency (for no private agency is in a position to make such a study) will soon gather enough of such information to enable general conclusions to be drawn as to the conditions under which it is cheaper for the manufacturer to sell the retailer direct than to sell through the wholesalers.

Several of the cost studies so far published do not segregate selling expenses. Some figures showing the average selling expenses of manufacturers marketing their products in different ways have, however, been published. The average pre-war selling expenses of the farm implement manufacturers was approximately 15 per cent.[3] Most of these manufac-

[3] Federal Trade Commission: "Causes of High Prices of Farm Implements," pp. 119 and 124. Losses from bad debts and collection expenses are not included in expenses.

turers maintain branch jobbing houses and sell direct to the retail dealers and some of them supply canvassers to help the retail dealers sell the farmers. On the other hand some of these manufacturers sell their implements on a jobbing basis to other manufacturers or to wholesaler dealers. This percentage of 15 per cent then does not include all the wholesale or jobbing expenses for if all manufacturers operated such houses the average selling expenses would be slightly higher than 15 per cent.

The flour millers had average selling expenses of 4.5 per cent in 1912-13, and 4.9 per cent in 1913-14.[4] Some of the flour mills have a number of branch jobbing houses but most of the flour is sold through mill agents, brokers, or jobbers.

The canned food packers have typical selling expenses of about 5 per cent. The average selling expense of the salmon canners in spite of their remote locations is about 6 per cent, when cash discounts are excluded.[5] The canners market the bulk of their product through brokers and sales agents, although some of them do sell direct to the wholesalers and a few direct to the retailers.

The items included as selling expenses may not be the same for each of the above industries. The products are so different that comparisons must be made with caution. The number of industries is too small

[4] Federal Trade Commission: "Flour Milling and Jobbing," 1918, p. 12. Figures cover 130 large and small mills producing 40 per cent of the total domestic output of flour.

[5] Federal Trade Commission: "Canned Foods, Vegetables and Fruits," pp. 16-20 and 31; "Canned Salmon," pp. 47-48.

to enable definite general conclusions to be drawn, but by comparing the methods of selling with the average selling expenses for the different classes of manufacturers it is evident that the selling expenses of those manufacturers selling to the retailers are much higher than those selling through brokers or sales, or mill, agents.

Producers selling direct to consumers.—Much has been said in recent years about direct relations between producers and consumers. Four methods of direct selling may be mentioned: Manufacturers selling the consumers by mail; manufacturers selling the consumer through their retail stores or through specialty salesmen; farmers selling the consumers upon city or public markets; and farmers selling the consumers by parcel post.

Manufacturers selling by mail.—This method has already been discussed in Chapter XII "Mail Order Houses." It need only be pointed out here that such a method greatly increases the manufacturer's selling expenses. His expenses for advertising, correspondence, packing and shipping are especially large. It does not appear whether or not the manufacturer's expenses are increased to an amount equalling the expenses and profits of the displaced wholesalers and retailers. If the volume of sales is large such direct selling would appear to involve a saving in expenses but if the volume is small the percentages of expenses might be increased. The growth of this method indicates that there is some saving to the consumers but not enough to lead most

of them to undergo the inconveniences in patronizing such manufacturers regularly.

Manufacturers selling the consumers through their own stores.—Several manufacturers have established their own retail stores through which they supply their goods to the public. A few years ago such chains were regarded by some as furnishing a cheaper method of distributing goods. The operation of such stores, however, involves all of the problems of retail store operation except that of purchasing. As the manufacturers are specialists in production and have organizations designed to operate factories and not stores they have apparently not been able to reduce the expenses of store operation. The savings possible with such stores are: the elimination factory selling expenses, a part of the retailers buying expenses, and the wholesalers' expenses and profits in case the class of merchandise in question ordinarily passes through the hands of a wholesaler. The manufacturers could also eliminate the retailers profit if he so desired. There are several of these manufacturers' stores and the number is increasing but such stores show no signs of displacing other stores. Manufacturers as a rule are now very cautious in establishing such stores.

Large retail units, chain stores, mail order houses and department stores, often enter the manufacturing field. This practice establishes direct connections between producers and consumers.

Farmers' markets.—Much has been said in recent years about establishing, or reviving, the farmers markets in order that farm produce can be sold direct to

the city consumers. Some cities have spent considerable sums to provide, or retain, such markets, and farmers markets are to be found in nearly all of our cities. Even New York, the largest of our cities, has three such markets. The number of farmers living close enough to our large cities to sell their goods on such markets is too small to supply any considerable part of the produce consumed in such cities although the motor truck has greatly increased the number of farmers who can reach such markets. In the larger cities the farmers markets are generally wholesale markets, the farmers selling only in relatively large lots—1 bushel or barrel. The buyers are principally dealers, wholesalers, retailers, street vendors, and hucksters—although some consumers buy in these quantities to secure the lower prices. Taking the country as a whole there are very few city markets where the farmers are successfully selling to the consumers. There are several reasons for this. The farmers often cannot afford the time. At the prevailing rate of wages the time required to sell goods in this way is quite an item. Thirty farmers selling on the public market in Seattle report average sales of slightly over $14 for an average day of nearly nine hours.[6] The sale of goods at wholesale requires less time and the wholesale markets are often held in the early morning. The time necessary for the consumer to visit such markets often makes this method of purchasing impractical. Perishable foodstuffs must

[6] "Bulletin No. 2," State of Washington, Office of Farm Markets, p. 10.

be bought in small quantities and few housewives except those living nearby, can afford the time necessary to visit such markets regularly. The electric railways and automobiles have spread American cities over so much territory that a very small percentage of the population lives near such markets.

Markets in Harrisburg and Knoxville.—There are a few cities where farmers markets are successfully selling to the consumers. The most successful of such markets that have reached the author's personal attention are those in Harrisburg, Pa., and Knoxville, Tenn. Both of these are cities of between 70,000 and 100,000 population and both are located close to good farming sections. In Harrisburg the farmers rent space from privately owned market companies. In Knoxville the farmers park their wagons on the market square and on adjacent streets. One side of the square is occupied by farmers selling at retail and the other side by farmers selling at wholesale.

In Harrisburg, according to the author's information, the people go to market from habit, the custom having been handed down from their Pennsylvania Dutch ancestors. The goods are, perhaps, fresher but they are said to be little, if any, cheaper than similar goods sold by the local grocers. In Knoxville the retail grocers are said to ordinarily sell produce as cheaply as the farmers selling at retail and in addition, they deliver the goods and extend credit. Lower prices can, however, be obtained when the farmers are anxious to go home, as on Saturday afternoon, or

by buying on the wholesale side of the market. The quantities sold on the wholesale side of the market are often within the reach of the ordinary consumer, one watermelon, one basket of grapes, or one bushel of apples. Very successful public markets are reported in operation in several other cities but it is doubtful if the consumers save much by patronizing them.

Markets in Washington and California.—Seven cities in the State of Washington have had public markets, four of which were in operation in 1917. The Seattle market has been considered a success but it seems that the consumers get little benefit from it. The office of Farm Markets of the State reported: "The farmers selling on the Seattle market get the full retail price. Comparison with prices on uptown markets and the testimony of consumers substantiate this. . . . The customers. . . .are attracted to the market by the freshness of the products and the ability to choose from a large variety of produce. . . The consumer has to consider the cost of personal marketing, transportation, time, and inconvenience. . . .On all the Washington public markets. . . .practically the full retail price is charged except for bulk purchases, or on Saturday nights." The average cost to the farmers of selling on the Seattle market is estimated 38 per cent of the price to the consumer.[7] Public markets have been established at several cities in California but most of them are reported to be failures.

[7] "Bulletin of Office of Farm Markets, State of Washington," by George S. Wehrweiss, quoted in the "Third Annual Report of the State Market Director of California," pp. 79-84.

The most successful one is located at Santa Cruz and the prices are reported to be slightly lower than those charged by the local dealers. A public retail market was started in Binghampton, N. Y., in 1917 and was quite successful at first but as soon as the housewives found that they saved nothing they stopped patronizing the market, which soon fell into disuse.[8]

Farmers selling from house to house.—The farmers often sell their produce from house to house in the smaller cities and towns located in agricultural sections. This often means a saving to the consumers as the farmers are often willing to sell in this way for slightly more than they could receive for their goods at wholesale, or there may be no wholesale market for their goods. Small cities and towns with a local supply of produce generally secure such produce very much cheaper than the large cities. Prices in the large cities are often double or triple those in producing sections. On the other hand small cities and towns outside of the producing sections may have to pay more than the larger cities as the goods must pass through a central market before they reach such places.

Direct sales by parcel post.—The Post Office Department has been active in promoting the shipments of foodstuffs to the cities by parcel post as a means of decreasing the cost of living and increasing the postal receipts. The price is supposed to be somewhat higher than the farmer could receive in his local market and

[8] "Third Annual Report of the State Market Director of California," pp. 85-87.

somewhat lower than the prevailing retail prices in the city. The practice is therefore supposed to benefit both producer and consumer. The farmer also finds an outlet for his goods and is able to sell quantities too small to be sold in other ways. The consumer also gets fresher goods. This method of selling, or buying, has had some growth and a considerable number of people are using it successfully. It is, however, relatively unimportant and has so many disadvantages, or limitations, that it will probably never come into regular use by most people.

Disadvantages of the parcel post method.—It is difficult for connections to be made. The consumers hesitate to place orders with strangers and the farmers hesitate to ship goods to strangers except on the c.o.d. basis. It is hard for the farmers to keep their customers posted at all times as to exactly what they have for sale. The buyer may place an order for goods which have all been sold or the order may be received in a busy time when the farmer cannot afford the time to pack and ship the goods. In either case the buyer is disappointed and loses confidence in the seller. This method also involves the necessity of the consumer anticipating his wants and the bother of writing letters, and frequently of addressing and returning empty cartons. To the farmer it means the trouble of packing and addressing packages, often at inconvenient times, and of writing letters. Disputes are likely to arise as to the quality of the goods or as to the damages in transit. The goods may not be graded quite as carefully as the goods ordinarily

bought by the city consumer or may be overripe, or mashed in transit. Unless both parties are absolutely fair in settling such cases the relations are likely to be severed. Then there is the question of prices: The prices are supposed to be between the prices at the country shipping point and the city retail prices. The farmer must pay the postage and as his goods are fresher he often feels that he should receive the city retail price. This may lead the buyer to think that he is not getting a square deal. On the other hand if the price is left to the buyer the farmer may feel that he is being taken advantage of. The determination of a fair price is no easy matter. The price of produce changes from day to day and from hour to hour. The price may be one thing when the goods are shipped and an entirely different thing when they arrive. Then the retail prices vary with the quality of the goods and the store at which the purchase is made. Take peas for an example. The price of young tender peas at a high grade grocery store may be $1.60 a peck, while peas, of a poorer quality may on the same day be bought at a cash market for 40 cents a peck. What then would be a fair price for a parcel post shipment of a medium grade of peas?

Parcel Post shipments of farm products to city customers may benefit some farmers and some city consumers but this method cannot materially reduce the expenses of marketing the nations food.[9]

[9] On the subject of parcel post shipments read article in *Amer. Econ Review*, September, 1916: "Marketing Farm Products by Parcel Post," by B. H. Hibbard and Asher Hobson.

3. COOPERATIVE MARKETING ORGANIZATION

Object.—Cooperative marketing organizations attempt primarily to secure the middlemen's profits for their members. These enterprises also generally attempt to eliminate certain middlemen or reduce selling expenses. The consumers' cooperative stores attempt to secure the retailers' profits for their members. Such stores also attempt to reduce operating expenses by securing a large volume of sales, renting a cheap location, and limiting the credit and delivery services rendered. The large volume of sales is supposed to be secured from the liberal patronage of all members.

Success.—Many such stores have been started in the United States but prior to the world war most of them failed or ceased to be operated on the cooperative basis. Those that have succeeded generally have had a membership with a strong group, or class feeling. The consumers' cooperative buying clubs attempt to eliminate the retailers' profits and also to reduce the expenses of retail distribution by dispensing with or performing for themselves, many services ordinarily performed by the retailers. The cooperative or company stores started by many manufacturers to help their employees reduce the cost of living, eliminate the retailers' profit, and a part of their expenses. Some of the expenses have at times been absorbed by the corporation. These stores not infrequently also eliminate the wholesaler and buy direct

from the manufacturers or their sales agents. The cooperative jobbing house attempts to secure the wholesaler's profits for its members. The cooperative jobbing house also eliminates certain of the wholesalers' expenses—notably a part of the selling expenses. The cooperative manufacturing activities of the retail stores, for example the United Drug Company, or the American Druggists' Syndicate, should also be mentioned.

Farmers cooperative marketing organizations often eliminate one, two, or even three middlemen, and sell to the city wholesalers either through their own salesmen, brokers, or auctions. The profits of these middlemen are obtained by the farmers but it does not appear what part of the expenses of such middlemen are eliminated. Such cooperative marketing organizations are apparently a step in the right direction, but it must be remembered that their purpose in eliminating middlemen and cutting down marketing expenses is primarily to get higher prices for themselves and not to reduce prices to the consumers.

4. CHEAPER AND MORE EFFICIENT METHODS

The methods already discussed in this chapter for decreasing the number of middlemen and for establishing cooperative marketing organizations often also include improvements or economies in marketing methods.

Cheaper retail methods.—The cash-carry stores, the cafeterias, grocerterias, and self-serve stores of all kinds aim at reducing the expenses of retailing but, unless cooperative, make no attempt to eliminate the retailer's profit. Such methods often mean that the customers perform for themselves services heretofore ordinarily performed by the dealers. The housewife who patronizes a cash-carry store really secures for herself the money which the retailer would otherwise pay out for delivery expenses and interest. The self-serve stores however, seem to do a little more for they may involve a considerable saving of time to the consumers. A buyer may secure her goods quicker in a self-serve store than in a store where she must wait to be "waited on," just as it is often possible to secure a meal quicker in a cafeteria than in a restaurant furnishing "table service." The use of such methods by chain stores buying direct from the manufacturers and operated efficiently appear to offer the greatest opportunities for reducing the costs of marketing the goods capable of being handled by them of any system developed up to this time.

Elimination of over the counter sales. — The salaries of sales people constitute the largest single expense for most middlemen. The cooperative and mail order jobbing houses attempt to limit the expenses of salesmen in the operation of wholesale concerns. The self-serve stores are based on the idea of reducing the number of employees. It was pointed out in a previous chapter (Chapter XII) that the

elimination of salespeople was one of the greatest advantages, or economies, of the mail order houses. Other expenses of the mail order houses, however, tend to offset or counterbalance this saving. The high expense of selling dry goods, women's clothing, shoes, etc., are due in no small degree to the "shopping" habits of the buyers. If a system could be evolved under which salespeople would have to show goods only to those who expect to buy the expenses of selling many classes of merchandise could be reduced. In the case of style goods or new articles it is doubtful if this could be done without seriously limiting the services furnished to the customers.

Cherington[10] suggests that over the counter sales might be entirely eliminated in the sale of staple groceries. He suggests that such groceries be sold from warehouses having railroad connections and receiving orders only by telephone. This method would involve many economies. The warehouse could be placed in a cheap rent location. The only salespeople needed would be those to take the telephone orders. No show windows would be needed and no stock need be displayed. On the other hand the expenses for delivery and bookkeeping would be relatively high. If a large volume of sales were secured cheaper prices should be possible. There are, however, two limitations on such a method. First it is difficult to get people to change their methods of buying. The advertising expenses would probably

[10] "Elements of Marketing," pp. 196-198.

have to be high at least until trade was secured and customers became accustomed to buying in this way. Second, such a method limits the opportunities of the retailers to introduce new products. Manufacturers desiring to market new products or to stimulate the sales of old ones might be forced to spend large sums on advertising or to adopt other methods of retail distribution.

Should consumers buy in larger quantities?—Many of the suggestions for reducing the expenses of retailing involve larger individual purchases by the consumers. The small quantities in which consumers now purchase many goods undoubtedly increase the expenses of retailing. An order for 25 pounds of sugar can be taken as quickly as for one pound, and a case of canned goods can be sold as quickly as one can. Retail stores could certainly be operated more cheaply if their customers would buy in larger lots. Many suggestions for cheaper retail methods are based on the assumption that customers can be induced to buy in larger quantities. Part of the success of buying clubs depends upon the relatively large size of the individual orders. When customers buy in large quantities they assume the risk of spoilage otherwise borne by the middlemen. People living in apartments have little space to store large quantities of goods. Larger individual purchasers, however, would reduce the expenses of retailing, lessen the need for neighborhood stores, and make possible the cheaper distribution of non-perishable goods.

Curb markets.—It was pointed out above that retail farmers' markets are unsuccessful in most of our cities. There are, however, in many of our large cities one or more so-called "Markets" occupied by dealers in perishable foods. These markets are often well patronized, but the prices are generally little if any lower than those obtaining among outside dealers. Public officials and other interested in reducing the price of foods have frequently advocated the establishment of curb markets. The advocates of curb markets claim that the consumers can make large savings by patronizing such markets. If curb markets are well patronized the large sales and rapid stock turnover may enable the dealers to sell at low prices. Competition must, however, be keen to keep prices down. If few customers come, few dealers will come and prices may rise to the level prevailing elsewhere. Such prices will not attract customers and the market will fall into disuse. Perishable foods must be bought in small quantities which means that to be available to most housewives such markets must be located in the various residential sections. In place of curb markets some advocate the erection of buildings by the cities where a very nominal rent will be charged the dealers complying with all the regulations. Although prices may be somewhat lower in such markets, those that are now operating do not appear to have exerted any important influence on the average price of foodstuffs.

Elimination of wholesale warehousing function.—Another suggestion for reducing the cost of dis-

tributing goods is to eliminate the warehousing function of the wholesalers. This proposal does not necessarily involve the abolition of the wholesalers. They would give up their warehouses but continue to maintain their sales organizations. It would not be necessary for the manufacturers to send their salesmen to the retailers but all goods would be shipped direct to the retailers. This method would reduce the expenses of the wholesalers but would increase the expenses of transportation due to shipments in small lots. It would also increase the warehousing and shipping expenses of the manufacturers and would mean that the retailers would have to have more storage space and keep more money tied up in goods. This method is used by the drop shippers described in Chapter VI and its use might be extended to the sale of other style goods where it is desirable to get the goods as quickly as possible from manufacturer to retailer. The warehousing of goods and their distribution in small quantities to the separate retail stores is, however, almost a necessity with most classes of goods. The chain stores do not eliminate this function. If the wholesalers cease to perform it, it will not be eliminated but merely shifted to the manufacturers and retailers and the total marketing expenses will probably not be lessened by such a shift. The suggestion to eliminate the wholesale warehousing function offers no opportunity for reducing the cost of distributing most classes of goods to the small retailers.

Central wholesale markets.—Another proposal is for the establishment of central wholesale markets in the larger cities, for the sale of foodstuffs. In some cities the food wholesalers are located in various parts of the city, often at considerable distances from railroad sidings. Such locations involve heavy expenses for transportation and in case of perishable foods also a certain amount of damage due to exposure to heat and cold and to handling. Large terminals could be built providing floor space for all dealers and also adequate cold and dry storage facilities. Such markets should have connections with all railroads entering the city. Goods would be unloaded direct from the cars onto the space allotted to the dealers. The basement and upper floors could be used for storage space. Auction rooms and offices for the brokers could also be provided on the upper floors. Such markets could be publicly or privately owned but should be publicly regulated. Such regulation would secure fair dealing on the part of all occupants. An arrangement should also be made under which anyone could ship goods to the market manager or the supervising government official who would have them sold by a commission merchant, broker, or auction and see that the proper return was made to the shipper.

The advantages of such markets would be: elimination of cartage costs from car to store and from store to car on goods shipped to out of town buyers; reduction of losses of foodstuffs from handling or exposure to heat or cold; reduction in amount of

foods lost due to lack of proper storage facilities; an equalization of prices due to adequate storage facilities; saving of buyer's time by having all dealers located close together; reduction in salesforce needed by the dealers who now sell all or a part of their goods from the cars; reduction in unfair trade practices; and, in some cases, reduction in number of middlemen, as under the proposed scheme the car lot receivers could sell directly to the retailers. It would, however, be difficult to find suitable locations for such markets in some cities and the expense of providing adequate buildings and other facilities would be very heavy.

Such terminal markets should certainly reduce the marketing expenses although all of the expected advantages might not be realized in actual practice.

PUBLIC REGULATION

Public regulation of prices.—There has developed in recent years a more or less widespread demand for public regulation of prices, especially of the prices of foodstuffs. This suggestion was often heard during the war when prices were soaring and charges of "profiteering" were of daily occurrence. The advocates of such regulation argue that food, for example, is as much a necessity as gas, electricity or transportation; that the competitive system has failed to protect the consumers; hence that the manufacturers and dealers in foodstuffs should be considered as public utilities and regulated accordingly. Under such a system of control the Government might regulate

the number of manufacturers and dealers, outline the services to be performed and the records to be kept, and fix their prices, or prescribe their margins of profits. Such a system of regulation does not attempt to abolish private property or profits. Unless consolidations or monopolies were formed it is difficult to see how prices could be materially reduced for the reason that the regulating bodies would be forced to consider the expenses of the high cost or marginal manufacturers and dealers in prescribing margins of profit or in fixing prices. Whether monopolistic organizations subject to public regulation would distribute foodstuffs more cheaply than is done under the present system is a debatable question and one that is too broad to be discussed in this chapter.

The government might go even further and regulate the production of goods; regulate the territorial distribution of goods; and provide better storage facilities. Such regulations would, however, hardly be practical under our present system of government.

CONCLUSIONS

Decreased costs may be obtained by increasing the efficiency of present methods or by introducing new methods. Some of the proposals for reducing marketing costs have been discussed although it is impossible in our limited space to mention all of them. Many of the proposals are good but for the fact that they overlook the tenacity of buying habits and the difficulty of introducing new methods. The buying public is unorganized and so cannot introduce

new methods by agreement. Changes must be made slowly. We have discussed briefly some of the changes now taking place in marketing methods. The tendency to lessen the number of middlemen and establish direct connections between producers and retailers, or consumers, has been mentioned. Such connections have been made possible by the growth of large retail organizations on the one side and large manufacturing, or farmers cooperative organizations, on the other. We do not, however, have enough information to enable a general statement to be made as to just how much marketing costs have been reduced by such connections.

The self-serve and other "economy" methods make possible lower prices to the consumers but often mean that the consumers perform certain services for themselves which in the past have generally been performed by the retailers. Such methods used by large retail organizations able to buy directly from the producers offer opportunities for considerably reducing marketing costs. Increased operating efficiency by middlemen—such as a higher rate of stock turnover or cooperative delivery systems—may also help to reduce marketing expenses.

Cooperative marketing organizations are potentially important but practically often failures. Cooperative selling organizations are often successful in increasing the sellers profits. Cooperative buying organizations have however, up to this time done little to reduce the level of prices to the consumers.

It is impossible to make a definite statement as to how much changes now taking place will reduce the cost of marketing goods. It must be remembered that marketing methods are constantly changing. Some of these changes may involve a reduction in the cost of distributing merchandise and others may not. But because some do not we should not be led to believe that the efficiency of our marketing machinery cannot be increased. More study should be devoted to marketing. All members of society—producers, distributors, and consumers—should encourage those proposals or methods that promise to reduce the cost of marketing goods.

BIBLIOGRAPHY

Cherington, P. T.: "Elements of Marketing," chs. 15 and 16.
Federal Trade Commission: "Wholesale Marketing of Food."
Ivy, Paul W.: "Principles of Marketing," ch. 21.
Nystrom, Paul H.: "The Economics of Retailing," chs. 19 and 21.
Weld, L. H. D.: "The Marketing of Farm Products," pp. 16-23 and 179.

CHAPTER XXIV—QUESTIONS

1. What are the different classes of proposals that have been made for reducing the cost of marketing goods?
2. Which proposal do you think offers the greatest opportunity for reducing marketing costs? Why?
3. Are there too many middlemen? Why or why not?
4. Does direct selling from the manufacturer to the retailer benefit the consumer? Why or why not?
5. In what ways may the manufacturer sell direct to the consumer? Is the consumer benefited by any of these? If so how? If not, why?
6. Do the farmers' markets supply an efficient marketing method?

Do they benefit the farmer? The consumer? Why have so many farmers' markets fallen into disuse?

7. What are the difficulties involved in the farmer selling his produce to the city consumers by parcel post? What are the advantages of this method when successful?
8. Outline what you would consider an ideal marketing system for the United States.

INDEX

Accounting, 342-49; 465; 478; 481
Acker, Merrall & Condit, 223
Advertising, by Dept. Stores, 248; 261
  Untruthful, 281
  by Mail Order Houses, 281; 289
  Expense by Mail Order Houses, 289
  by Chain Stores, 323
  by Farmers' Coop. Assns., 447-48
  by Trade Associations, 465; 469-70
  by Manufacturers, 597-601
Agencies, exclusive, 532-34
Agents, See Brokers, Buying Agents, Sales Agents
All Package Stores, 328
American Can Co., 484
American Specialty Manufacturers' Association, 144
American Woolen Co., 484
Antwerp, 170
Armour & Co., 525
Assembling, 9; 10
Atlanta, 59
Auctions, Ch. VII; 189
Automobile, Effect of on rural stores, 239-240
  Social changes due to, 297
  Accessories, 506-7
  Demand for, 507-9
Baltimore, 175
Binghamton, N. Y., 627
Birmingham, 48
Bon Marche, 221
Boston, 48-49; 145; 175; 427
Branch Houses of Manufacturers, 66-67; 137-38; 514; 524-26
Brands, 146-50; 536
Brokers, Ch. IV; 445; 519-21
Brooklyn, 32
Bucket Shops, 199
Buffalo, 48; 49; 145; 175
Bulk Line Principle of Price Fixing, 485; 548
Business Associations, 462-63
Business Defines, 2-4
Butler, Ralph Starr, 268
Buying, See Purchasing
Buying Agents, 85-87
Calif. Associated Raisin Co., 445; 456; 457
Calif. Fruit Growers' Exchange, 441; 450; 453; 598
Calif. Lima Bean Growers' Assn., 106
Canvasser, 216-17; 537-39
Car Shortages, 30-31; 39-40
Cartels, German, 483; 484
Cash Carry Method, 328; 331; 632
Central Wholesale Markets for Foods; See Wholesale Markets for Foods
Chain Stores, Ch. XIII; 223-225; 536
Chain Stores, for names mentioned; see Ch. XIII
Chambers of commerce, 397; 462

Charleston, S. C., 48
Chattanooga, 48
Cherington, Paul T, 82; 100; 633
Chicago, 23; 33; 49; 50; 51; 52; 53; 101; 162; 175; 312; 337; 427
Cincinnati, 28; 34; 35; 36; 175
Clayton Act, 534; 571
Cleveland, 175
Cold Storage, 45-50
Columbus, 34; 175
Commission Merchants, 67; 83-84; 122-27
Commission, Rates of by Brokers, 101-07; 189
Rates charged by Fruit Auctions, 177-78; 453
Competition, Increase in
Relation to Prices, 549-50
Trade Associations, Ch. XVIII
See Monopoly
Consignment, See Commission Merchant
Cooperation by Farmers, Ch. XVII; 211; 630-31
by Retailers, 121-22; 247
Producers, Ch. XVI
Consumers, Ch. XVI; 630-31
Wholesalers, 121-22; 162; 338
by Trade Associations, Ch. XVIII
Cooperative Marketing, Ch. XVI and XVII
Cooperative Marketing. Organizations, for names mentioned see Ch. XVI and XVII
Copeland, Melvin T., 82; 105
Corners, 197-98
Cost of Advertising, 598
Cost of Doing Business, Retailers, Ch. XIV
Wholesaler, 153-58
General Stores, 236-37
Specialty Stores, Ch. XIV; 246
Department Stores, 266-70
Mail Order Houses, 286-90
Chain Stores, 325-332
Self Serve Stores, 326-27
Definition, 344-46
Large and Small Stores, 355-58
Cooperative Stores, 432-33
Farmers' Coop. Assns., 452-54
Cost of Marketing, 5-8; 613-14; 638; 639
Cost of Production used by trade associations, 478-81
Relation to prices, 547-49
Cotton Futures Act, 211
Cotton Pickers, 501-03
Credit, Wholesaler extends to Retailer, 134
Mail Order Houses, 286-87; 301
Relation of Trade Associations to, 465; 469
Extension by Wholesalers, 527-28
Policies, 602-05
Cudahy Packing Co., 525
Cumberland, Wm. W., 454
Curb Markets, 635-38
Curtis Publishing Co., 494
Delivery, 262; 295; 326; 329; 458; 562-64
See Transportation

Demand, 391-401
New Products to Meet, 489
Use of Questionnaires to determine, 490-92
Factors affecting, 496-501
Determining by Experiment, 509-10
See Living Conditions
Denver, 175-428
Department Stores, Ch. XI; 220-22
Detroit, 34; 175
Discount, 567-72
Direct Sales, to Consumers, 218; 276; 277; 534-39
Distribution:
Choosing a Method of, Ch. XX
Definition of, 2
Of goods by wholesalers, 131-32
Methods, Ch. III
Dividing, 10
Drop Shipper, 143; 636
Dutton, B. F., 221
Eastman Kodak Co., 509
East St. Louis, 35; 428
Economy, Method, 224-25; 325-26
Expenses of Doing Business, See Cost of Doing Business
Expense of Marketing, See Cost of Marketing
Failures Among Retailers, 376-81; of Mfgs., 488
Fairs, 215-16
Farmers
Attitude toward produce exchanges, 210
Cooperative organizations, Ch. XVII
Markets, 623-27
Selling from house to house, 627
Federal Trade Commission, 13; 46; 48; 51; 55; 82; 96; 109; 135; 161; 163; 208; 301; 342; 346; 348; 354; 360; 362; 365; 372; 376; 456; 478; 481; 485; 581
Filene, Edw. A., 309; 435
Financing, 16; 606
by Brokers, 89
Fitchburg, Mass., 427
F. O. B., 573
Foodstuffs, Damage to, 34; 36-39
F. O. P., 574-75
Ford, Henry, 595
Ford Motor Co., 500
Fungible and Non-Fungible Goods, 47
Future Sales, 192-94; 199-203
Delivery Under, 197-198
General Sales Agency of America, 165
General Store, 219-20; 234-40
Gentlemen's Agreements, 471; 474-75
Goods, Fungible and Non-Fungible, 47
Goods, Inc. in Manufactured, 228-229
Grading, 10-14; by Produce Exchanges, 195-97
Graded vs. Ungraded Fruits, 175-76
Grain Elevators, 45; 439-40
Grand Rapids, Mich., 376
Great Atlantic & Pacific Tea Co., 223; See also Ch. XIII
Grocerteria, 225; 632

Guarantee Against Price Decline, 574-76
Haney, Lewis H., 531
Harrisburg, Pa., 48; 625
Harvard University, Bureau of Business Research, 155; 158 330; 344; 346; 348; 356; 357; 359; 362; 364; 365; 405; 411
Hedging, 201-03
Help Yourself Store, 225
Higgling, 226-27
Hoboken, 426
Hoover, Herbert, 7; 40; 187
Houghton, S. S., 221
Houston, 48
Huckster, 216
Hudson Bay Co., 314
Hutchinson, Kan., 50
Income, net, 369-75
relation to demand, 497-99
See also Profits, net
Indianapolis, 34
Intensive Selling, 608-09
Interest as an Expense, 345-46
International Harvester Co., 484; 534
Inventory, Perpetual, 385-88; unbalanced, 389-90
Jacksonville, 48
Jewell Tea Co., Inc., 217
Jobber, See Wholesaler
Jones Bros. Tea Co., 223
Jordon, Marsh, 221
Justice, U. S. Dept. of, 162; 337; 473; 534
Kansas City, 35; 190; 192; 427
Knoxville, 48; 625
Kresge Stores, 366; See also Ch. XIII
Lauck, W. Jett, 106
Leaders, Use of by Wholesalers, 140
Leggett, F. H. & Co., 147
Liverpool, 70; 191
Living Conditions, 256-57; 282-84; 507; 593; 613; 615
Location of Stores, 323-24; 425-26; 492-93; 260-61; 218; 220; 224; 235; 237; 248.
London, 170
Long Sale, 206-07
Los Angeles, 58; 427
Louisville, 34; 35; 36
McCrory Stores, 366; See also Ch. XIII
Macy, R. H., 221
Mail, Business done by, 276-77
Use of to defraud, 281
Mfgs. Selling by, 63; 536-37; 622; Ch. XX
Mail Order Houses, Ch. XII; 221-22
Mail Order Houses, for Names Mentioned, See Ch. XII
Mail Order Jobber, 121
Management, of General Stores, 238-39
of Specialty Stores, 248-50
of Department Stores, 271-73
of Chain Stores, 321-24
of Retail Stores, 355-58
of Cooperative Stores, 424; 429
Market Analysis, Ch. XVIII
Marketing, Definition of, 1-2
Object of, 2-3
A Part of Business, 3-4
Little Studied, 4-5
Importance of, 5-8
Increasing Interest in, 8
Opportunities in, 8-9
Functions, 9-18

Marketing Facilities, Ch. II
Markets, Public, 63; 215-16
Farmers, 623-27
Curb, 635-38
Central, 51-60
Memphis, 59; 225
Messengers in Charge of Cars of Perishable Foods, 38
Middlemen Handling Various Products, Ch. III
Middlemen, Are There Too Many? 614-17
Miles City, Mont., 427
Milwaukee, 175
Minneapolis, 35; 175
Minn. Exp. Station, 429; 433
Moody's Manual, 348; 366
Monopoly, 335-38
Monopoly Price, 555-558
Montgomery Ward & Co., 223; 437; See also Ch XII
Morris & Co., 525
Mounds, 36
National Biscuit Co., 525
National Canners' Association, 464; 466
National Canned Foods and Dried Fruit Brokers' Association, 100
Nelson, N. O., 424
New Orleans, Ch. XVI, 14, 175; 424
New York City, 22; 32; 33; 49; 50; 52; 53; 101; 161; 175; 176
Non-partisan League, 427
Norfolk, 34; 48; 380
Nystrom, Paul H., 226; 268; 376; 377; 379; 614
Omaha, 428
Open Price Associations, 475-78
Ordering vs. Purchasing, 388-89
Oshkosh, Wis., 376; 377
Over the Counter Sales, Elimination of, 632-34
Owen, Robt., 419
Parcels Post, Sale of Foods by, 627-29
Park & Tilford, 223
Patrons of Husbandry, 223
Peddler, 216
Pender, David, 380
Pennsylvania R. R., 29; 59
Pensacola, 48
Philadelphia, 35; 48; 53; 59; 118; 145; 175
Philadelphia Plan, 145-46
Physical Marketing Facilities, Ch. II
Piggly Wiggly Stores, 225; See also Ch. XIII
Pittsburgh, 27; 48; 59; 103; 175; 225; 427
Pools, 446-47; 471; Pooled Car, 90; 526-27
Poor's Manual, 348-366
Population, Distribution of, 524; 525
Population, Relation to Demand, 496
Portland, Me., 145
Post Office, U. S. Dept., 627
Potomac Yards, 36
Prices, Chs. XXI and XXII:
Equalization of by organized Exchanges, 209-10
Higgling Over, 226-27
One Price Plan, 227
Falling, 221; 227-28
Rising, 226
Mfgs. Sell by Mail to Control, 285
Low by Mail Order Houses, 291-92

Prices (*Continued*)
Establishment of at Auction, 173
Effect of Auction Sales on, 184-85
Public by Exchanges, 194-95
Stabilization of by Exchanges, 205-09
Certainty of by Speculation, 209
Of Chain Stores, 330-33
Relation to Profits, 350-51
Of Cooperative Stores, 422 431-33
Fixing by Trade Associations, 466; 470-86
Fixing by Trade Associations Supervised by Government, 485
Authority and Influence of Brokers on, 93-97
Public Regulation of, 337; 638-39
Proctor & Gamble, 530; 531
Produce Exchanges, Ch. VIII
Production, 1; 4; Relation to Selling Policies, 594-97
Profits, Gross, 150-53
Definition, 343
Of Retailers, 349-55
Profits, Net
Definition, 346
of Brokers, 107-112
of Wholesalers, 158-61
of Retailers, 366-75
of Chain Stores, 372
Profit and Loss Statement, 346-47
Providence, 35
Publicity, 600-01; See Advertising
Purchasing, Ch. XV; 260
Chain Stores, 317-19
Farmers' Coop. Assns., 448-49
Cooperative by Merchants, 121-22; 457-58
Power of a Community, 493-96
By Mail Order Houses, 285-86
Quality, Relation to Price, 550-52
Quantity Prices, 567-68
Quantities Purchased by Consumers, 634
Quantity Theory of Money, 544-47
Railroads, 24-27
Terminals, 27-35
Overloading Cars, 37
Rates and Classifications, Work of Trade Associations, 465
Estimating Traffic, 505-06
Refrigeration, 45; 46; 48-50
Rent, 236; 266; 286; 323-25; 344; 356
Resale Price Maintenance, 576-85
Retailing, Chain Stores, Ch. XIII
Department Stores, Ch. XI
Development of, Ch. IX
Mail Order Houses, Ch. XII
General Stores, Ch. X
Specialty Stores, Ch. X
Mfrs. Stores, 623
Richmond, Va., 48
Risks, Assumption of, 40-41; 203-05; 391
Rochdale Plan, 419; 422; 426
St. Louis, 34; 35; 145; 175

St. Paul, 35; 175; 427
Sammons, Wheeler, 268; 289
Sales Agent, 81-83; 90-96
  Selling Through, 518-19
Sales Contract, 95; 465; 466
Sales, Cash, Spot and Future, 192-95
Sales Force, of Wholesalers, 132-34
  Needed by Mfg., 516; 522-23
  Of Brokers 90-91
Sales Management, 607-10
Salesmanship of Brokers, 91-93
  Poor in Dept. Stores, 265
    to Secure Volume of Sales, 510-11
    of Wholesalers, 528-29
    of Specialty Salesmen, 537-39
    by Manufacturers, 598; 607; 609
Sales in Same Stage of Distribution, Necessity For, 73-74
Sales of Raw and Semi-finished Goods, 74-75
San Antonio, 48
San Francisco, 34; 427
Santa Cruz, Cal., 627
S. A. P., 573
Savannah, 48
Sears, Roebuck & Co., 393; See also Ch. XII
Seattle, 48; 624
Self Serve Stores, 224-25; 326-29
Selling Expenses, Farm Imp. Mfrs., 620
  Flour Millers, 621
  Canned Food Packers, 621; See Cost of Doing Business
Selling Houses, 82-83
Selling, Relation to Production, 592-97; 610
  Relation to Advertising, 597-98; 610
  Relation to Credit Policies, 605-06; 610
  Complete Policy, 610
Service, 231; 258-59; 263-64; 294-97; 299-300; 302-03; 334; 358-59; 606-08; 632-34; 640
Sherman Anti-Trust Law, 471
Short Sale, 206-08
Southern Pacific Railway, 58
Specialty Salesmen, 143-145; 537-39
Specialty Stores, Ch. X; 218
Speculation, Ch. VIII
Spot or Cash Sales, 192-95
Stage of Distribution, Sales in Same, 73-74; 192-95
Standard of Living; See Living Conditions
Standard Oil Co., 484
Stockkeeping, Ch. XV. See Management
Stock Turnover, Ch. XV; 249-50; 287-88; 319-20
Storage, 15; 42-51
  Importance of, 43-45
  Facilities, 45-51
  Public Warehouses, 46-47
  Refrigeration Space, 45-46
  Central Wholesale Markets, 51-60
  By Wholesalers, 131-32
  See Warehousing; Standardization, 10-15; 595
  By Produce Exchanges, 195-97

Storage (*continued*)
By Farmers' Coop. Assns., 442; 447-48
By Trade Associations, 466-69
Superior, Wis., 427
Style, Rapid Changes in, 230
Swift & Co., 6; 7; 525; 601; 614
System Magazine, 376
Thomas Grocery Register, 99; 116; 309
Thornhurst, H. F., 144
Toledo, 175
Tractors, Farm, 288; 489; 504-05
Trade Associations, Ch. XVIII
Trade Channel, Ch. III; Ch. XX; Shortening, 617-29
Transportation, Ch. II; 2; 14-15
Traveling Salesmen, 218-19; 522-23
Turnover, of Working Capital, 413-14
Manufacturers', 403-04
See Stock Turnover
U. S. Dept. of Agriculture, 301
Bureau of Markets, 429; 430; 438
U. S. Dept. of Labor, 430; 433
U. S. Steel Corp., 484
U. S. Supreme Court, 580
Wanamaker, John, 227
Wants, 2-3; 282-83
Warehousing, 634
By Wholesalers, 131-32
by Manufacturers, 66-67; 138; 522; 524-27; See Storage
Waterloo, Iowa, 376
Weather, Foretelling, Effect on Business, 397-99
Wholesale Dealers, Chs. V and VI; See Wholesaler
Wholesale Grocers, 116-17
Gross Profits, 151-52
Expenses, 154-5
Net Profits, 158-59
Future of, 161
Wholesaler, Manufacturing, 146-47
Brands, 147-50
Gross Profits, 150-53
Expenses, 153-58
Net Profits, 158-61
Future of, 161-66
Cooperative, 421-22; 427
Selling to by Mfg., 521-23; 525-32
Mfrs.' Price to, 566-67
Wholesaler and Jobber, 118
General and Specialty, 119-21
Semi-jobber, 121
Mail Order, 121
Cooperative, 121-22; 247; 421-22; 427
Number of, 127-30
Services Performed by, 130-39
Problems of, 139-41
Wholesale Markets for Foods, 51-60; 537-38
Wichita, Kan., 34; 38
Wilkes-Barre, Pa., 48
Wilmington, Del., 48
Wilson & Co., 525
Woolworth, F. W. Co., 223; 366; See also Ch. XIII
Women as Buyers, 255-59

HF
5415
C55

Converse, Paul Dulaney
Marketing methods and
policies

PLEASE DO NOT REMOVE
CARDS OR SLIPS FROM THIS POCKET

UNIVERSITY OF TORONTO LIBRARY